Joint Stock Bank of Reconversion and Development

Financial Statements
for the year ended 31 December 2010

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Independent Auditors' Report

To the Shareholders of the Joint Stock Bank of Reconversion and Development

We have audited the accompanying financial statements of Joint Stock Bank of Reconversion and Development ("the Bank"), which comprise the statement of financial position as at 31 December 2010, the income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 68.

Management's Responsibility for the Financial Statements

Management of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by Bank's management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on these financial statements.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Joint Stock Bank of Reconversion and Development as at 31 December 2010 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Irina Vereschagina
Partner
KPMG LLC
Minsk
13 May 2011

INFORMATION ON MANAGEMENT

As at 31 December 2010 the members of the Management Board were as follows:

Name	***Position***
Martynov Y.G.	Chairman of the Management Board
Valynets Y.A.	Member of the Management Board, Deputy of the Chairman of the Management Board
Yurkevich N.K.	Member of the Management Board, Deputy of the Chairman of the Management Board
Sinitsin A.G.	Member of the Management Board, Assistant of the Chairman of the Management Board
Petrovich E.E.	Member of the Management Board, Chief Accountant
Dikan V.V.	Member of the Management Board, Head of the Legal Department
Savich V.S.	Member of the Management Board, Head of the Security Department

During the year 2010 Doronkevich V.V. was removed from the Management Board, Valynets Y.A. was appointed a Member of the Management Board.

As at 31 December 2010 the members of the Board of Directors were as follows:

Name	***Position***
Tsybulin V.A.	Chairman of the Board of Directors
Tsybulina E.A.	Member of the Board of Directors
Intven S.i	Member of the Board of Directors, representative of DEG
Managadze I.N.	Member of the Board of Directors, representative of EBRD
Kovzanadze I.K.	Member of the Board of Directors

During the year 2010 Miroshnichenko V.B. was removed from the Board of Directors, Intven S. was appointed a Member of the Board of Directors.

On behalf of the management of the Bank:

Martynov Y.G.
Chairman of the Management Board

Petrovich E.E.
Acting Chief Accountant

Minsk
13 May 2011

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The Management of Joint Stock Bank of Reconversion and Development (further –"Bank") is responsible for preparing the financial statements of the Bank. The financial statements on pages 7 to 68 represent fairly the financial position of the Bank as at 31 December 2010, the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards (further – "IFRS").

The management of the Bank confirms that appropriate accounting policies have been used and applied consistently. Reasonable and prudent judgment and estimates have been made in the preparation of the Bank's financial statements. The management also confirms that the Bank's financial statements have been prepared on a going concern basis.

The management of the Bank is responsible for keeping proper accounting records, for taking necessary steps to safeguard the assets of the Bank and to detect and prevent fraud and other irregularities. It is also responsible for operating the Bank in compliance with laws of the Republic of Belarus, including the regulations established by the National Bank of the Republic of Belarus.

The financial statements for the year ended 31 December 2010 were authorised for issue on 13 May 2011 and signed on behalf of the management of the Bank.

On behalf of the management of the Bank:

Martynov Y.G. Chairman of the Management Board	Petrovich E.E. Acting Chief Accountant

Minsk
13 May 2011

STATEMENT OF FINANCIAL POSITION

In millions of Belarusian Rubles

	Notes	31 December 2010	31 December 2009
Assets			
Cash and balances with the National Bank of the Republic of Belarus	4	40,585	25,281
Financial assets at fair value through profit or loss	5	161	145
Loans and receivables		308,002	120,929
Due from the National Bank of the Republic of Belarus	*6*	*44,897*	-
Due from banks	*7*	*21,726*	*4,752*
Loans to customers	*8*	*241,379*	*116,177*
Available-for-sale assets	9	14,449	8,150
Investment property	10	4,369	-
Property and equipment	11	8,189	7,870
Intangible assets	12	403	300
Current tax asset		-	59
Other assets	13	1,634	1,041
Total assets		**377,792**	**163,775**
Liabilities			
Financial liabilities at fair value through profit or loss	5	1,906	431
Financial liabilities at amortised cost		266,903	97,471
Due to the National Bank of the Republic of Belarus	*14*	*38,395*	-
Due to banks	*15*	*28,708*	*16,661*
Customer accounts	*16*	*163,521*	*80,388*
Debt securities issued	*17*	*19,856*	-
Subordinated debt	*18*	*16,423*	*422*
Preference shares	19	5,406	5,406
Provision for unused vacation	20	366	272
Current income tax liability		322	45
Deferred tax liability	21	1,311	1,144
Other liabilities	22	1,605	828
Total liabilities		**277,819**	**105,597**
Equity			
Share capital	23	65,272	44,947
Treasury shares		(1)	(2)
Additional capital contribution	18	8,521	8,521
Fair value reserve		-	71
Retained earnings		26,181	4,641
Total equity		**99,973**	**58,178**
Total liabilities and equity		**377,792**	**163,775**

The notes on pages 13-68 form an integral part of these financial statements.

On behalf of the management of the Bank:

Martynov Y.G.
Chairman of the Management Board

Petrovich E.E.
Acting Chief Accountant

Minsk
13 May 2011

INCOME STATEMENT

In millions of Belarusian Rubles

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Interest income	24	54,105	35,182
Interest expense	24	(13,416)	(10,092)
Net interest income before effect of initial recognition of financial instruments		**40,689**	**25,090**
Net effect of initial recognition of financial instruments at fair value	24	6,650	-
Net interest income		**47,339**	**25,090**
Fee and commission income	25	5,851	4,760
Fee and commission expense	25	(558)	(451)
Net fee and commission income		**5,293**	**4,309**
Net expenses on financial instruments at fair value through profit or loss		(2,225)	(311)
Net foreign exchange income	26	6,116	7,847
Net (expenses)/income on available-for-sale assets		(295)	12
Other net income	27	1,903	2,421
Operating income		**58,131**	**39,368**
Administrative expenses	28	(27,333)	(23,295)
Net increase in impairment allowance on financial assets	8	(3,916)	(4,867)
Net decrease in impairment allowance on other financial assets	13	2	2
Net increase in impairment allowance on loan commitments	22	(393)	(22)
Net change in provision for unused vacations	20	(94)	(272)
Profit before income tax expense		**26,397**	**10,914**
Income tax expense	21	(4,795)	(2,934)
Net profit for the period		**21,602**	**7,980**

The notes on pages 13-68 form an integral part of these financial statements.

On behalf of the management of the Bank:

Martynov Y.G.
Chairman of the Management Board

Petrovich E.E.
Acting Chief Accountant

Minsk
13 May 2011

STATEMENT OF COMPREHENSIVE INCOME

In millions of Belarusian Rubles

	Year ended 31 December 2010	Year ended 31 December 2009
Profit for the period	**21,602**	**7,980**
Other comprehensive income		
Fair value reserve (available-for-sale assets)		
Net change in fair value	(364)	161
Net amount transferred to profit or loss	293	(90)
Total other comprehensive income	**(71)**	**71**
Total comprehensive income for the period	**21,531**	**8,051**

The notes on pages 13-68 form an integral part of these financial statements.

On behalf of the management of the Bank:

Martynov Y.G.
Chairman of the Management Board

Petrovich E.E.
Acting Chief Accountant

Minsk
13 May 2011

STATEMENT OF CASH FLOWS

In millions of Belarusian Rubles

	Notes	2010	2009
Cash flows from operating activities			
Profit before income tax expense		26,397	10,914
Adjustments to profit before income tax expense:			
Net change in accrued income and expenses		(3,767)	(1,550)
Income received through repossession of collateral		(983)	-
The effect of initial recognition of financial instruments at fair value	24	(6,650)	-
Unrealised foreign exchange expenses/(income) on financial instruments at fair value through profit or loss		1,460	339
Unrealised foreign exchange expenses/(income)		816	(2,721)
Increase in impairment allowance on financial assets	8	3,916	4,867
Decrease in impairment allowance on other assets	13	(2)	(2)
Increase in impairment allowance on loan commitments	22	393	22
Losses from changes in fair value of investment property	10	1,065	-
Amortisation and depreciation	11, 12	901	815
Change in provision for unused vacations	20	94	272
Gain on sale of assets held for sale		-	(770)
Other expenses/(income)		46	(15)
Cash flows from operating activities before changes in operating assets and liabilities		**23,686**	**12,171**
(Increase)/decrease in operating assets:			
Obligatory reserve deposits with the National Bank of the Republic of Belarus		635	627
Due from the National Bank of the Republic of Belarus		(70,518)	-
Due from banks		(9,838)	4,844
Loans to customers		(129,228)	(29,831)
Available-for-sale assets		(6,314)	(7,994)
Other assets		330	551
Increase/(decrease) in operating liabilities:			
Due to the National Bank of the Republic of Belarus		70,511	-
Due to banks		12,226	(1,912)
Customer accounts		82,146	(7,230)
Other liabilities		374	(28)
Net cash flows used in operating activities before income tax		**(25,990)**	**(28,802)**
Income tax paid		(4,292)	(2,236)
Net cash flows used in operating activities		**(30,282)**	**(31,038)**
Cash flows from investing activities			
Acquisition of property, equipment and intangible assets		(1,648)	(1,167)
Proceeds from sales of property and equipment		3	831
Proceeds from sale of assets held for sale		-	7,300
Net cash flows (used in)/from investing activities		**(1,645)**	**6,964**
Cash flows from financing activities			
Proceeds from share issue		20,325	-
Sale of treasury shares		1	
Subordinated debt received		14,574	-
Dividends paid		(62)	(344)
Repayment of debt securities issued		19,750	(11)
Net cash flows from/(used in) financing activities		**54,588**	**(355)**

STATEMENT OF CASH FLOWS (CONTINUED)

Net increase/(decrease) in cash and cash equivalents		**22,661**	**(24,429)**
Effect of changes in foreign exchange rate on cash and cash equivalents		10	2,639
Cash and cash equivalents at the beginning of the year	29	**27,892**	**49,682**
Cash and cash equivalents at the end of the year	29	**50,563**	**27,892**

The notes on pages 13-68 form an integral part of these financial statements.

On behalf of the management of the Bank:

Martynov Y.G.
Chairman of the Management
Board

Petrovich E.E.
Acting Chief Accountant

Minsk
13 May 2011

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

In millions of Belarusian Rubles

	Share capital	Treasury shares	Additional capital contribution	Fair value reserve	Retained earnings	Total equity
Balance as at 1 January 2009	**34,041**	**(63)**	**8,521**	**-**	**9,900**	**52,399**
Net profit for the year	-	-	-	-	7,980	7,980
Other comprehensive income for the year						
Available-for-sale assets	-	-	-	71	-	71
Net change in fair value	-	-	-	*161*	-	*161*
Net amount transferred to profit or loss	-	-	-	*(90)*	-	*(90)*
Total comprehensive income for the year	**-**	**-**	**-**	**71**	**7,980**	**8,051**
Transactions with shareholders recorded directly in equity						
Increase in share capital	10,906	-	-	-	(10,906)	-
Increase in preference shares	-	-	-	-	(1,963)	(1,963)
Sale of treasure shares	-	-	-	-	(26)	(26)
Dividends paid	-	61	-	-	(344)	(283)
Balance as at 31 December 2009	**44,947**	**(2)**	**8,521**	**71**	**4,641**	**58,178**
Net profit for the year	-	-	-	-	21,602	21,602
Other comprehensive income for the year						
Available-for-sale assets	-	-	-	(71)	-	(71)
Net change in fair value	-	-	-	*(364)*	-	*(364)*
Net amount transferred to profit or loss	-	-	-	*293*	-	*293*
Total comprehensive income for the year				**(71)**	**21,602**	**21,531**
Transactions with shareholders recorded directly in equity						
Increase in share capital	20,325	-	-	-	-	20,325
Sale of treasure shares	-	1	-	-	-	1
Dividends paid	-	-	-	-	(62)	(62)
Balance as at 31 December 2010	**65,272**	**(1)**	**8,521**	**-**	**26,181**	**99,973**

The notes on pages 13-68 form an integral part of these financial statements.

On behalf of the management of the Bank:

Martynov Y.G.
Chairman of the Management Board

Petrovich E.E.
Acting Chief Accountant

Minsk
13 May 2011

1. General information

Joint Stock Bank of Reconversion and Development (the "Bank") was established on 22 February 1994 as a closed joint stock company in accordance with the legislation of the Republic of Belarus. The Bank works under the banking license #21 renewed by the National Bank of the Republic of Belarus on 31 January 2008. The Bank also has a license for performing professional and stock-exchange activities with securities, which was issued by the Ministry of Finance of the Republic of Belarus valid till 29 July 2012.

The Bank was established for commercial and retail banking operations in the territory of the Republic of Belarus. The principal activities of the Bank include providing loans to individuals, small and medium enterprises and other companies; attracting resources on deposits from non-banking and banking customers, maintaining customer accounts, performing cash and settlement operations, operations with securities and foreign currency transactions.

The Bank has one branch in the Republic of Belarus in a regional city Vitebsk.

The registered address of the Bank is 18 Krasnozvyozdnaya Street, Minsk 220034, Republic of Belarus.

The average number of employees of the Bank was 407 in 2010 (2009 - 408).

2. Basis of presentation

Statement of compliance

The financial statements of the Bank are prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). The Bank maintains accounting records in accordance with the requirements of the effective legislation of the Republic of Belarus. The financial statements are prepared on the basis of these accounting records adjusted to comply with IFRS in all material respects.

The financial statements for the year ended 31 December 2010 were authorised for issue on 13 May 2011 and signed on behalf of the management by the Chairman of the Management Board and the Chief Accountant. The shareholders have the right to reject the financial statements and request they be amended and reissued.

These financial statements are presented in millions of Belarusian Rubles ("BYR million"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the following:

- derivative financial instruments are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- investment property is measured at fair value.

In addition, in accordance with International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29") the economy of the Republic of Belarus was considered to be hyperinflationary during 2005 and prior years. Starting 1 January 2006, the economy of the Republic of Belarus was no longer considered to be hyperinflationary and the values of the Bank's non-monetary assets, liabilities and equity as stated in measuring units as at 31 December 2005 have formed the basis for the amounts carried forward to 1 January 2006.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect reported amounts of assets and liabilities of the Bank, disclosure of contingent assets and liabilities at the reporting date and reported income and expenses for the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, when the carrying amount of assets and liabilities cannot be measured in other way. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the periods in which the estimates are revised and in any future periods affected. The accompanying financial statements reflect management's assessment of the potential impact of the Belarus and global business environment on the operations and the financial position of the company. However, future developments in the business environment may differ from management's assessment.

The significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on amounts recognised in the financial statements include impairment allowances on financial assets (Note 8), determination of fair value of financial instruments (Notes 5 and 9), effect of initial recognition of financial instruments at fair value (Note 3, 6 and 14), application of the fair value model to investment property (Note 3 and 10) and recognition of deferred tax asset (Note 21).

Impairment allowances on loans to customers and loan commitments

The specific counterparty component of the total allowances for impairment applies to loans evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial position and the net realisable value of any underlying collateral. The impairment for loans, which are assessed collectively for impairment, is based on the available information, which evidences the decrease of the expected future cash flows on the loan group. The Bank's assumptions about estimated losses are based on past performance, past customer behaviour and general economic conditions, which are not necessarily an indication of future losses. When assessing credit risk and provisions, the Bank applies the same estimates and judgements to loan commitments as to loans.

Determination of fair value of financial instruments

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

Determination of fair value for assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that have no active market fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Currency forward contracts included in derivatives do not have active market and are valued using discounted cash flows model. The fair value of the derivatives is determined on the basis of the interbank interest rates applicable to respective currencies and exchange rates effective in the Republic of Belarus.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

In millions of Belarusian Rubles

31 December 2010	**Notes**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	5	-	161	-	**161**
Available-for-sale assets	9	14,449	-	-	**14,449**
Financial liabilities at fair value through profit or loss	5	-	1,906	-	**1,906**
31 December 2009					
Financial assets at fair value through profit or loss	5	-	145	-	**145**
Available-for-sale assets	9	8,150	-	-	**8,150**
Financial liabilities at fair value through profit or loss	5	-	431	-	**431**

Recognition of deferred tax asset

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The estimate of probability is based on the Bank's management forecasts in relation to the future taxable profit and includes a significant degree of judgement of the Bank's management.

Functional and presentation currency

The functional and presentation currency of the Bank is the national currency of the Republic of Belarus – Belarusian Ruble.

Adoption of new and revised International Financial Reporting Standards

In the current year the Bank has adopted new and revised Standards and Interpretations approved by IASB and IFRIC that are relevant to its operations and effective for reporting period ended on 31 December 2010.

Amendments to IFRS 2 Share-based Payment (effective for annual periods beginning on or after 1 January 2010) - The amendments to the Standard require that an entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the group or any shareholder of such an entity in cash or other assets to recognize the goods or services received in its financial statements. This standard is not applicable to the financial statements as the Bank does not have any share-based payments.

Revised IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2009) – The revised standard prescribes acquisition accounting for business combinations as before, but includes some other significant changes. These changes had no impact on the financial statements of the Bank as it is not involved in any business combination.

Revised IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009) - In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. These changes had no impact on the financial statements of the Bank as it is not involved in any business combination.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009) - The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship.

The amendments to IAS 39 are not relevant to the Bank's financial statements as the Bank does not apply hedge accounting.

IFRIC 17 Distributions of Non-cash Assets to Owners (effective prospectively for annual periods beginning on or after 15 July 2009) - The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. This Interpretation is not relevant to the Bank's financial statements as the Bank does not have such distributions.

New standards and interpretations not yet effective

Amendments to IFRS 7 "Financial Instruments: Disclosures" (effective for annual periods beginning on or after 1 July 2011, early adoption is permitted).

In October 2010 the IASB adopted amendments to IFRS 7, requiring the disclosure of additional information on risks arising in relation to the transferred financial assets, as well as changes in accounting for transfers of financial assets. The above stated changes include the disclosure requirements by asset types on the nature, the book value, risks and benefits associated with financial assets transferred to another party, but remained in accounting records of the company. Disclosure allows the user to get an idea of the sum of all the obligations involved and the connection between financial assets and related liabilities. The Bank has no plans on early adoption of this amendment.

IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013, early adoption is permitted) and Amendments to IFRS 9 "Financial Instruments" (issued in 2010) (effective for annual periods beginning on or after 1 January 2013, early adoption is permitted).

This Standard replaces the guidance in IAS 39 "Financial Instruments: Recognition and Measurement" about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since it will be required to be retrospectively applied.

The Bank is currently assessing the impact of this standard and has not yet determined the date for adoption.

Amendments to IAS 12 Income taxes - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012, earlier application is permitted).

The 2010 amendment introduces an exception to the current measurement principles based on the manner of recovery in paragraph 52 of IAS 12 for investment property measured using the fair value model in accordance with IAS 40 by introducing a rebuttable presumption that in these for the assets the manner of recovery will be entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the rebuttable presumption can be rebutted.

The Bank is currently assessing the impact of this standard and has not yet determined the date for adoption.

Revised IAS 24 "Related Party Disclosure" (effective for annual periods beginning on or after 1 January 2011).

In November 2009 the IASB issued a new edition of IAS 24.The amendment exempts government-related entities from the disclosure requirements in relation to related party transactions. The revised Standard also amends the definition of a related party and clarifies the definition of significant influence. The previous version of the standard required the companies controlled by, or under significant influence of the state, to disclose information on all transactions with other companies, also controlled by, or under significant influence of the state.

New edition of IAS 24 with the stated amendments should be applied retrospectively, and is mandatory for application to annual periods beginning on or after 1 January 2011. Early application is permitted.

The Bank is currently analyzing the impact of this Standard.

Amendments to IAS 32 "Financial Instruments: Disclosures and Presentation of Information" – Accounting of rights in foreign currency.

In order to further improve IAS 32 was issued the amendment "Classification of issues relating to rights", which applies to reporting periods beginning on 1 February 2010 or after that date with the right to early adoption. The amendment describes the accounting of issues concerning rights denominated in foreign currencies other than the functional currency of the issuer. With the release of this amendment such rights regardless of the currency in which the purchase price is denominated, should be recorded in equity and meet certain criteria. Previously, these financial instruments should have been accounted for as financial liabilities. This amendment should be applied retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", covering periods beginning on 1 January 2011.

It is expected that amendments to the Standard will have no impact on these financial statements.

Amendments to IAS 32 "Financial Instruments: Presentation" – "Classification of Rights Issues"

In October 2009 the IASB issued amendments to IAS 32. These amendments are effective for annual periods beginning on or after 1 February 2010, early application is permitted. The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Amendment to IAS 32 is mandatory for application for annual periods beginning on 1 January 2011.

It is expected that amendments to the Standard will have no impact on these financial statements.

Amendment to IFRIC 14– The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual period beginning on or after 1 January 2011).

The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required.

The amendments to IFRIC 14 are not relevant to the Bank's financial statements as the Bank does not have any defined benefit plans with minimum funding requirements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).

The Interpretation clarifies the accounting for the company's own financial obligations at a time when they are revised and as a result of such review the entity should issue its own equity instruments in favor of the lender to repay the debt fully or partially.

The Bank did not issue equity to extinguish any financial liability. Therefore, the Interpretation will have no impact on the comparative amounts in the Bank's financial statements for the year ending 31 December 2010.

3. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents represent assets, which can be converted into cash within 90 days and include cash in hand, balances with the National Bank of the Republic of Belarus, balances with other credit institutions. The balances which are restricted for use are excluded from cash and cash equivalents.

Obligatory reserve deposits with the National Bank of the Republic of Belarus

Obligatory reserve deposits with the National Bank of the Republic of Belarus (the "National Bank") are balances deposited in the National Bank, which are not intended for the financing of current operations. Obligatory reserves with the National Bank are not included in cash and cash equivalents for the purposes of statement of cash flows.

Financial instruments

Classification of financial assets and liabilities on initial recognition is performed on the basis of intention, for which they were acquired or incurred and their characteristics. Subsequent reclassifications occur only if permitted by IFRS.

All financial instruments are classified into the following categories.

Financial assets and liabilities at fair value through profit or loss are those that have been classified by the Bank as at fair value through profit or loss or as held for trading. Available for trading financial instruments are those that the Bank principally buys for the purpose of generating a profit from short-term fluctuations in the price of the instruments and include derivatives.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than

(a) those that the Bank intends to sell immediately or in the near term;

(b) those that the Bank upon initial recognition designates as at the fair value through profit or loss or as available for sale;

(c) those for which the Bank may not recover substantially all of its initial investments, other than because of credit deterioration, which shall be classified as available for sale.

Loans and receivables include amounts due from banks, loans to customers and other financial assets which comply with these classification criteria.

Available-for-sale financial assets are non-derivative financial assets that are not included into any of the other categories described above. Available-for-sale instruments may include certain debt and equity investments.

Financial liabilities at amortised cost include balances due to banks, customer accounts and other borrowed funds.

Initial recognition of financial instruments

The Bank recognises financial assets and liabilities in the statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognised using settlement date accounting.

Financial assets and liabilities are initially recognised at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability.

Fair value of financial instruments

Fair value is the amount, for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

The determination of fair value for financial assets and liabilities, for which there is no observable market price requires the use of valuation techniques. Input data for such models is based on the market under observation, if possible; otherwise, application of judgment is required. The judgment should be made taking into account the liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Derecognition of financial assets

Derecognition of the financial assets (or, if applicable, of the part of a financial asset or of the part of the group of similar financial assets) takes place only when:

- the contractual rights to the cash flows from the financial asset expire;
- the Bank transfers the contractual rights to receive the cash flows of the financial asset, or if the Bank retains the right to obtain cash receipt from such asset the Bank simultaneously assumes an obligation to pay it in full to the third party without significant delays; or
- the Bank either transfers substantially all risks and rewards related to the asset, or does not transfer and does not retain all related risks and rewards, but at the same time transfers the control over this asset. The control is retained when the counterparty has no practical ability to sell the asset in its entirety to an unrelated third party and is not able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are represented by derivative instruments. They include mainly forwards and swaps on foreign currency. The Bank enters into derivative financial instruments to manage currency and liquidity risks and for trading purposes. Derivative financial instruments entered into by the Bank do not qualify for hedge accounting.

Derivative financial instruments are initially recorded and subsequently measured at fair value. Fair values are obtained from quoted market prices and the interest rates parity model. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognised in the income statement for the year in which they arise under net income from financial instruments at fair value through profit or loss.

Due from the National Bank of the Republic of Belarus and banks

In the normal course of business, the Bank maintains advances and deposits for various periods of time with other banks. Balances due from banks with fixed maturity are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities. Amounts due from banks are carried net of allowance for impairment losses, if any.

The difference between the nominal amount of funds transferred and the fair value of allocation at a rate below the market rate, is recorded in the allocation period as an adjustment on initial recognition. Discounting is performed using approximate market rates effective at the time of funds (deposits) allocation, the adjustment is reflected in the profit and loss under the statement account "Net effect of initial recognition of financial instruments at fair value".

Loans to customers

Loans provided by the Bank are initially recognised at the fair value of consideration given plus related transaction costs. Subsequently, loans are carried at amortised cost using the effective interest rate method. Loans to customers are carried net of any allowance for impairment loss.

Financial assets impairment

The carrying amounts of financial assets or groups of financial assets of the Bank are reviewed at each reporting date to determine whether there is any indication of impairment. Impairment losses are recognised when incurred as a result of one or more events ("loss events") occurred after the initial recognition of financial assets and loss events that have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If there is no objective evidence that a financial asset is individually impaired (irrespective of its materiality), this asset is included in a group of financial assets with similar features of credit risk and is collectively with other assets assessed for impairment.

Loans and advances to banks and customers are assessed individually for objective evidence of impairment for individually significant financial assets and collectively for financial assets which are not individually significant.

Objective evidences that loans and advances to banks and customers are impaired include:

(a) delinquency in any ordinary payment;

(b) significant financial difficulties of the borrower evidenced by the financial information available in the Bank;

(c) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(d) negative change in national or local economic conditions that affect the borrower's business;

(e) a breach of a contract, such as a refusal or evasion to make interest or principal payments;

(f) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

Assets that are individually assessed for impairment, and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If the Bank determines that there is no objective evidence of impairment of a financial asset individually assessed for impairment, the asset is included in a group of financial assets with similar credit risk characteristics and is assessed for impairment on a collective basis.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics such as asset type, collateral type, past-due status and other relevant factors. The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The main criteria, based on which the objective evidence for the impairment loss on loans and advances to banks and customers assessed for impairment on a collective basis are identified, is available information which evidences the decrease of expected future cash flows on the financial assets group after their initial recognition, which can be reasonably determined, that cannot be attributed to the individual financial assets in this group. The objective evidences can include unfavorable changes in the borrowers' payment status of the group (for example, increase of the overdue payments number or of the credit cards' owners, who reach their credit limits and make minimal monthly payments); and also national or local economic conditions attributable to the default to meet obligations related to assets within the group (for example, growth of unemployment in the borrowers' geographical area, real estate price fall as applied to the state of mortgage in the corresponding area, oil price fall as applied to the receipt of the borrowed funds by oil producers or unfavorable changes of the industry environment, which may affect borrowers within the group).

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group and result of recovery of overdue amounts. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

To arrive at the present value of estimated cash flows, future cash flows are discounted at the original effective interest rate of an asset. If the loan is issued at the floating interest rate, future cash flows are discounted at the current effective interest rate. The present value of estimated cash flows of financial assets received as collateral is the amount which may be recovered through the sale of collateral less expenses on transferring and selling of collateral irrespective of possibility of repossession of collateral.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed by adjusting an allowance account in profit or loss.

Assets are written off against allowance for impairment losses in case of uncollectibility of loans and advances, including through partial or entire repossession of collateral.

Repossessed assets

As part of the normal course of business the Bank occasionally takes possession of non-financial assets that originally were pledged as security for loans. When the Bank acquires (i.e. gains a full title to) a non-financial asset in this way, the asset's classification follows the nature of its intended use by the Bank. Initially the non-financial assets are recognised at the carrying value of respective loans. When the Bank is uncertain of its intentions with respect to properties that it has repossessed, those properties are classified as investment property. Other types of collateral are classified as other assets and measured at cost less impairment allowance, if any. Repossessed assets are subsequently valued according to the accounting policy based on the classification of such assets in the statement of financial position.

Available-for-sale assets

Available-for-sale assets represent debt securities. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value with such re-measurement recognised in other comprehensive income until sold when the gain/loss previously recorded in other comprehensive income recycles through the income statement, except for interest income accrued using the effective interest rate method, which is recognised directly in the income statement. The Bank uses quoted market prices to determine the fair value for the Bank's investments in available-for-sale financial assets. Non-marketable debt securities are stated at amortised cost less impairment losses, if any, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognised in other comprehensive income is removed from other comprehensive income and recognised in the income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognised in the income statement for the reporting period.

Financial liabilities

Financial liabilities, except for those at fair value through profit and loss, are classified as financial liabilities accounted at amortised cost. Financial liabilities at amortised cost are recognised initially at fair value, less any transaction costs incurred. Subsequent to initial recognition, they are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings. When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

For borrowings received from shareholders, in the capacity as shareholders, at other than market rates the difference between nominal amount of consideration received and the fair value is recognised in the statement of changes in equity as additional capital contribution in the period such instruments are acquired. Subsequently, the carrying amount of such instruments is amortised and the related income/expense is recorded in the income statement using the effective interest rate method.

The Bank derecognises a financial liability when the obligation specified in the contract is discharged or cancelled or expires.

Financial liabilities, accounted at amortised cost, include loans and deposits due to banks, customer accounts debt securities issued and subordinated debt.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the statement of financial position when the Bank has a legally enforceable right to set off the recognised amounts and the Bank intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Property and equipment

Property and equipment are recorded at historical cost (for property and equipment acquired before 1 January 2006 – at cost adjusted for purchasing power of Belarusian Ruble as at 31 December 2005) less accumulated depreciation and impairment loss (if any).

The cost of an item of property and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the Bank incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Gains and losses on disposals of property and equipment are determined by reference to their carrying values and recognised in the income statement as other income or expense.

Repair and maintenance costs are charged to the income statement as incurred.

Construction in progress is accounted for at cost less impairment allowance, if any. When construction is completed, it is transferred to property and recognised at the carrying value at transfer. Construction in progress is not subject to depreciation before it is put in operation.

Depreciation

Depreciation is charged from the month following the month property and equipment are put into operation. Depreciation is charged on a straight line basis using the following annual rates of depreciation:

- buildings – 2 - 11%;
- vehicles – 11 - 15%;
- office and computer equipment – 10 - 20%;
- other – 5 - 25%;
- safes and other engineering devices (included in other property and equipment) – 2 - 3%.

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

The residual values, depreciation methods and useful lives are reviewed and, if necessary, adjusted at each reporting date.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is recognised if:

- it is probable that the Bank will receive future economic benefits attributable to the asset;
- the cost of the asset can be measured reliably

Intangible assets include software, licenses and other intangible assets.

Intangible assets which are separately acquired are initially recognised at cost (for intangible assets acquired before 1 January 2006 – at cost adjusted for purchasing power of Belarusian Ruble as at 31 December 2005). Subsequently, they are measured at cost less accumulated amortisation and allowance for impairment, if any.

Intangible assets with a definite useful life are amortised during the useful life of 1 to 10 years and are evaluated for impairment when there is an evidence of possible impairment of intangible assets. Useful lives and method of amortisation of intangible assets are reviewed at least annually at the end of the reporting period.

Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets other than investment property and deferred tax are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of assets, other than goodwill, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

After the recognition of an impairment loss the depreciation charge for property and equipment and intangible assests is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Investment property

The Bank classifies as investment property real estate held (as the owner or lessee under a finance lease), including property under construction or reconstruction for future use as investment property, to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business.

Investment property is initially recognized at cost, including direct transaction costs. After initial recognition the Bank values investment property at fair value with any gain or loss arising from a change in the fair value of investment property being recognized in profit or loss in the period in which it occurs. Current prices in an active market for identical real estate properties are the best evidence of the fair value. In the absence of current prices in an active market the Bank is guided by the following data: current prices in an active market for similar real estate properties, adjusted for the differences; recent prices for similar real estate properties in less active markets, adjusted to any changes after the transaction date to the reporting date; discounted cash flow projections.

The investment property is derecognized at its disposal or permanent withdrawal from operation when after the disposal of the investment property unit it is not expected to receive economic benefits.

Finance lease – Bank as a lessor

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

The Bank as a lessor recognises assets held under a finance lease in its statement of financial position and presents them as a receivable at an amount equal to the net investment in the lease. Net investment in the lease is the minimum lease payments receivable by the lessor under a finance lease and any unguaranteed residual value accruing to the lessor ("gross investment in lease") less unearned finance income.

The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. For this purpose the commitments should be in written form, signed by the parties under finance lease transaction and contain the significant terms of lease transaction.

Advances made by the lessee before inception of lease are deducted from net investments in lease.

If net investments in leases are impaired an impairment allowance is created. Net investments in lease are impaired if their carrying amount exceeds their estimated recoverable amount. The impairment allowance is determined as a difference between the carrying amount and the present value of estimated future cash flows on lease payments discounted at the original effective interest rate. Net investments in lease are measured in the statement of financial position less allowance for impairment.

Operating lease - Bank as a lessee

Operating lease is a lease under which all the risks and rewards incidental to the ownership of an asset are substantially maintained by the lessor. Lease payments under an operating lease are recognised as operating expenses on a straight-line basis over the lease term.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Bank's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon approval by the Bank's shareholders.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in the income statement as accrued.

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to retained earnings.

Loan commitments

The Bank assumes obligations of a credit nature, including financial guarantees, letters of credit and commitments to issue loans. Guarantees are the Bank's irrevocable obligations to perform payments when the customer does not fulfill his obligations to the third parties and have the same level of the credit risk as loans. Letters of credit are the Bank's written obligations to make payments on behalf of customers in the agreed amount when certain conditions are met; they are secured with the corresponding deliveries of goods or deposits and, accordingly, have lower risk level, than direct loan granting. Loan commitments represent an unused part of loans, guarantees or letters of credit authorised for issue. In respect of commitments to issue loans the Bank potentially has the risk to sustain losses equal to the total amount of the unused commitments, although it is likely that the probable loss amount is less than the total amount of the unused obligations, as many loan commitment arrangements also stipulate customers' compliance with certain credit standards.

Loan commitments are initially recognised at fair value, based on initial commission income received. At each reporting date loan commitments are measured at the higher of the amount recognised as a provision and the amount initially recognised less, where appropriate, cumulative amortisation of initial commission income received.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation arising as a result of past events, that can be measured reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions are measured at the present value of the lower of the expected cost that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

According to the requirements of the Republic of Belarus the Bank makes statutory payments to the Fund for social protection of the population of the Republic of Belarus from its employee salaries.

The Bank carries no further pension obligations in respect of its retired and former employees.

Taxation

Current tax expenses are recognised in the financial statements in accordance with requirements of the legislation of the Republic of Belarus. The current tax expense is based on taxable profit for the year using tax rates that have been enacted during the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to recover the asset.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged directly to other comprehensive income, in which case the deferred tax is also recognised in other comprehensive income.

Taxes other than income tax, which are stipulated by the legislation of the Republic of Belarus, are accounted for in operating expenses.

Income and expense recognition

All significant income and expense categories are recognised on an accrual basis.

Interest income and expenses are recognised in the income statement on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating effective interest rate the Bank evaluates cash flows in accordance with contractual terms of the financial instrument, but does not account for future losses on loans. When applying the effective interest method, an entity generally amortises any fees, points paid or received, transaction costs and other premiums or discounts included in the calculation of the effective interest rate over the expected life of the instrument. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Commissions are recognised as revenue as the services are provided. Commission income on loan commitments, where it is probable that a loan commitment will lead to a specific lending arrangement, are deferred in other liabilities and subsequently recognised as an adjustment to the effective interest rate of the resulting loan. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognised in the income statement on expiry.

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Bank at the exchange rate set by National Bank of the Republic of Belarus at the date of the transaction.

Monetary assets and liabilities denominated in currencies other than the functional currency (foreign currencies) are translated into Belarusian Rubles at the appropriate rate of exchange prevailing at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated into Belarusian Rubles at the exchange rate of the National Bank of the Republic of Belarus at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into Belarusian Rubles at the exchange rate of the National Bank of the Republic of Belarus at the date of fair value determination.

Profits and losses arising from these translations are included in net income on foreign exchange operations.

The exchange rates of the Belarusian Ruble to the main Bank`s operational foreign currencies are presented below:

Reporting date	US Dollar	Euro	Russian Ruble
31 December 2010	3,000.00	3,972.60	98.44
Average for 2010	2,980.00	3,954.07	98.13
31 December 2009	2,863.00	4,106.11	94.66

Determination and presentation of operating segments

The Bank determines and presents operating segments based on the information that internally is provided to the Management Board, which is the Bank's chief operating decision maker. Operating segments are determined and presented in accordance with IFRS 8 Operating Segments.

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the key management personnel to make decisions about resources allocated to the segment and assess its performance.

Business activities which are not allocated to a certain component are combined and disclosed in the category «Other/not distributed» in order to provide reconciliation segments` activities to the financial statement of the Bank.

For segment reporting purposes interest income and expenses are determined based on the direct method, on the basis of actual results of each segment. Accounting of income taxes is performed on group basis and is not allocated to segments.

4. Cash and cash equivalents

In millions of Belarusian Rubles	31 December 2010	31 December 2009
Cash in hand	17,956	11,769
Due from the National Bank of the Republic of Belarus	22,629	13,512
Total cash and balances with the National Bank of the Republic of Belarus	**40,585**	**25,281**

5. Financial instruments at fair value through profit or loss

As at 31 December 2010 financial instruments at fair value through profit or loss are represented as follows:

In millions of Belarusian Rubles	Notional amount		Fair value	
	Currency acquired	Amount	Asset	Liability
Forward contracts with the National Bank of the Republic of Belarus				
USD/BYR	USD	52,500	79	516
EUR/BYR	EUR	21,849	-	531
Total forward contracts		**74,349**	**79**	**1,047**
Swap with foreign currency				
BYR /USD	BYR	26,895	82	859
Total swaps		**26,895**	**82**	**859**
Total		**101,244**	**161**	**1,906**

As at 31 December 2009 financial instruments at fair value through profit or loss are represented as follows:

In millions of Belarusian Rubles	Notional amount		Fair value	
	Currency acquired	Amount	Asset	Liability
Forward contracts with the National Bank of the Republic of Belarus				
USD/BYR	USD	10,021	-	370
EUR/BYR	EUR	8,212	145	59
Total forward contracts		**18,233**	**145**	**429**
Swap with foreign currency				
EUR/USD	EUR	2,464	-	2
Total swaps		**2,464**	**-**	**2**
Total		**20,697**	**145**	**431**

6. Due from the National Bank of the Republic of Belarus

In millions of Belarusian Rubles	Note	31 December 2010	31 December 2009
Nominal value as at 31 December 2010		70,526	-
Amortized cost as at 31 December 2010		44,897	-
Effect of initial recognition	24	(26,191)	-

In 2010 the Bank placed and attracted mutual deposits with the National Bank of the Republic of Belarus (Note 14). The deposits are placed in US Dollars under interest rates ranging from 0.19% to 0.27% and attracted in Belarusian Rubles under interest rates ranging from 1.19% to 1.50%. All the deposits mature in 2015-2017. The deposits were initially recognised at fair value based on discounted cash flows using interest rates prevailing on the market for similar instruments. The fair value gain and loss were recognized in the profit and loss.

7. Due from banks

In millions of Belarusian Rubles	31 December 2010	31 December 2009
Balances not impaired or past due		
Nostro accounts	10,820	4,088
Loans and advances to other banks	10,906	664
Total due from banks	**21,726**	**4,752**

(a) Credit quality of due from banks

The following tables provide information on the credit quality of the due from banks some of them are graded according to the current credit rating assessed by international rating agencies Fitch Ratings Ltd. and Standard&Poor's:

In millions of Belarusian Rubles	31 December 2010	31 December 2009
A+	2,423	618
BB	861	2,232
BB-	3,162	-
Not rated	15,280	1,902
Total due from banks	**21,726**	**4,752**

(b) Restricted balances with other banks

As at 31 December 2010 and 2009 included in due from banks are guarantee deposits placed by the Bank for operations with letters of credit and plastic cards transactions in the amount of BYR 213 million and BYR 664 million, respectively.

(c) Concentration of placements with other banks

As at 31 December 2010 the Bank had balances with one Belarusian bank, whose balances exceeded 10% of the Bank's equity. The gross value of these balances as at 31 December 2010 were BYR 10,241 million. As at 31 December 2009 the Bank had no balances with banks, whose balances exceeded 10% of the Bank's equity.

(d) Maximum exposure to credit risk

The maximum exposure to credit risk of balances due from banks equals the net carrying amounts as reported in the statement of financial position.

8. Loans to customers

In millions of Belarusian Rubles	31 December 2010	31 December 2009
Commercial loans		
Credit lines	52,724	38,630
Regular loans	14,304	8,768
Finance leases	2,270	3,823
Total commercial loans	**69,298**	**51,221**
Loans to individuals		
Consumer loans	169,279	64,328
Commercial loans	4,816	3,229
Car loans	3,861	496
Plastic card loans	239	405
Overdrafts	355	296
Mortgage loans	1,007	2,226
Total loans to individuals	**179,557**	**70,980**
Total loans to customers	**248,855**	**122,201**
Less impairment allowance	(7,476)	(6,024)
Loans to customers less allowance for impairment	**241,379**	**116,177**

(a) (i) Credit quality of commercial loan portfolio

The following tables provide information on the credit quality of the commercial loan portfolio:

In millions of Belarusian Rubles	Gross loans	Impairment allowance	Loans less impairment allowance	Impairment to gross loans %
2010				
Loans for which no impairment has been identified	6,816	-	6,816	0.0%
Individually impaired loans	54,915	4,779	50,136	8.7%
Collectively impaired loans	7,567	165	7,402	2.2%
Total commercial loans	**69,298**	**4,944**	**64,354**	**7.1%**

In millions of Belarusian Rubles	Gross loans	Impairment allowance	Loans less impairment allowance	Impairment to gross loans %
2009				
Loans for which no impairment has been identified	2,902	-	2,902	0.0%
Individually impaired loans	45,503	3,193	42,310	7.0%
Collectively impaired loans	2,816	125	2,691	4.4%
Total commercial loans	**51,221**	**3,318**	**47,903**	**6.5%**

(a) (ii) Ageing of impaired loans of commercial loan portfolio

In millions of Belarusian Rubles	Gross loans	Impairment allowance
As at 31 December 2010		
Not overdue	54,116	1,433
Overdue less than 1 month	53	1
Overdue from 1 to 3 month	6,433	2,861
Overdue from 3 to 6 month	1,441	210
Overdue from 6 months to 1 year	-	-
Overdue more than 1 year	439	439
Total impaired loans	**62,482**	**4,944**

In millions of Belarusian Rubles	Gross loans	Impairment allowance
As at 31 December 2009		
Not overdue	47,728	2,864
Overdue less than 1 month	9	2
Overdue from 1 to 3 month	154	44
Overdue from 3 to 6 month	102	102
Overdue from 6 months to 1 year	326	306
Overdue more than 1 year	-	-
Total impaired loans	**48,319**	**3,318**

As at 31 December 2010 and 2009 commercial loans included one and seven loans of BYR 2,115 and 13,044 million, respectively, whose terms have been renegotiated. Otherwise these loans would be past due.

(a) (iii) Analysis of collateral for commercial loans (before impairment)

The following table provides the analysis of commercial loan portfolio by types of collateral as at 31 December 2010 and 2009:

In millions of Belarusian Rubles	31 December 2010	Share in loan portfolio, %	31 December 2009	Share in loan portfolio, %
Commercial loans				
Real estate	24,422	35.2%	23,559	46.0%
Third party guarantees	21,996	31.7%	13,043	25.5%
Guarantee deposits	405	0.6%	-	-
Other collateral	20,897	30.2%	11,775	23.0%
Unsecured loans	1,578	2.3%	2,844	5.5%
Total commercial loans	**69,298**	**100.0%**	**51,221**	**100.0%**

The amounts shown in the table above represent the carrying value of gross loans rather than the fair value of collateral. Other collateral includes mostly equipment, vehicles and goods for sale. The management of the Bank considers it impracticable to determine the fair values of specific collateral held.

(a) (iv) Industry analysis of loan portfolio

In millions of Belarusian Rubles	**31 December 2010**	**31 December 2009**
Real estate and construction	23,085	20,845
Trade	28,301	17,835
Manufacturing	7,255	10,489
Agriculture and food industry	2,864	375
Leasing	2,422	931
Transportation	1,668	287
Production of pharmaceuticals	1,526	-
Maintenance	1,297	-
Other	880	459
Less impairment allowance	(4,944)	(3,318)
Total net commercial loans	**64,354**	**47,903**

(a) (v) Movements in the impairment allowance

Movements in the loan impairment allowance of commercial loans for the years ended 31 December 2010 and 2009 are as follows:

In millions of Belarusian Rubles	**2010**	**2009**
Allowance for impairment		
Balance as at 1 January	3,318	1,350
Charge for the year	1,738	1,968
Write-offs	(112)	-
Balance as at 31 December	**4,944**	**3,318**

(a) (vi) Finance lease

Finance leases provided to commercial customers were as follows:

In millions of Belarusian Rubles	**31 December 2010**	**31 December2009**
Finance lease receivables:		
Gross investment in finance leases, receivable:		
Less than one year	1,770	2,834
Between one year and five years	909	1,595
Total gross investment in finance leases, receivable:	**2,679**	**4,429**
Unearned future income on finance leases	(409)	(606)
Net investment in finance leases	**2,270**	**3,823**
The net investment in leases comprises:		
Less than one year	1,469	2,313
Between one year and five years	801	1,510
Net investment in finance leases	**2,270**	**3,823**

(b) (i) Credit quality of loans to individuals

The following tables provide information on the credit quality of loans to individuals:

In millions of Belarusian Rubles	Gross loans	Impairment allowance	Loans less impairment allowance	Impairment to gross loans %
2010				
Loans for which no impairment was identified	24,542	-	24,542	0.0%
Individually impaired loans	5,058	306	4,752	6.0%
Collectively impaired loans	149,957	2,226	147,731	1.5%
Total loans to individuals	**179,557**	**2,532**	**177,025**	**1.4%**

In millions of Belarusian Rubles	Gross loans	Impairment allowance	Loans less impairment allowance	Impairment to gross loans %
2009				
Loans for which no impairment was identified	6,464	-	6,464	0.0%
Individually impaired loans:	3,152	350	2,802	11.1%
Collectively impaired loans:	61,364	2,356	59,008	3.8%
Total loans to individuals	**70,980**	**2,706**	**68,274**	**3.8%**

(b) (ii) Ageing of impaired loans to individuals

In millions of Belarusian Rubles	Gross loans	Impairment allowance
As at 31 December 2010		
Not overdue	149,618	643
Overdue less than 1 month	2,363	312
Overdue from 1 to 3 month	1,244	396
Overdue from 3 to 6 month	1,084	649
Overdue from 6 months to 1 year	706	532
Overdue more than 1 year	-	-
Total impaired loans	**155,015**	**2,532**

In millions of Belarusian Rubles	Gross loans	Impairment allowance
As at 31 December 2009		
Not overdue	59,734	583
Overdue less than 1 month	1,652	272
Overdue from 1 to 3 month	1,260	509
Overdue from 3 to 6 month	1,080	702
Overdue from 6 months to 1 year	790	640
Overdue more than 1 year	-	-
Total impaired loans	**64,516**	**2,706**

(b) (iii) Analysis of collateral for loans to individuals (before impairment)

The following table provides the analysis of loans to individuals by types of collateral as at 31 December 2010 and 2009:

In millions of Belarusian Rubles	31 December 2010	Share in loan portfolio, %	31 December 2009	Share in loan portfolio, %
Loans to individuals				
Third party guarantees	2,754	1.5%	2,444	3.4%
Real estate	426	0.3%	152	0.2%
Other collateral	6,125	3.4%	3,523	5.0%
Unsecured loans	170,252	94.8%	64,861	91.4%
Total loans to individuals	**179,557**	**100.0%**	**70,980**	**100.0%**

The amounts shown in the table above represent the carrying value of gross loans rather than the fair value of collateral. The management of the Bank considers it impracticable to determine the fair values of specific collateral held.

(b) (iv) Movements in the impairment allowance

Movements in the loan impairment allowance of loans to individuals for the years ended 31 December 2010 and 2009 are as follows:

In millions of Belarusian Rubles	2010	2009
Allowance for impairment		
Balance as at 1 January	2,706	1,336
Charge for the year	2,178	2,899
Write-offs	(2,352)	(1,529)
Balance as at 31 December	**2,532**	**2,706**

(c) Significant credit exposures

As at 31 December 2010 the Bank had no significant credit exposures by borrowers. As at 31 December 2009 the Bank had one borrower, whose loan balances exceeded 10% of Bank's equity. The gross value of this loan as at 31 December 2009 was BYR 7,344 million.

(d) Maximum exposure to credit risk

The maximum exposure to credit risk of loans to customers equals to net carrying amounts as reported in the statement of financial position.

(e) Other

As at 31 December 2010 and 2009 the Bank assumed title to non-financial assets by taking possession of collateral held as security for loans issued. As at 31 December 2010 such assets in the amount of BYR 4,369 million were classified by the Bank as investment property (Note 10) and in the amount of BYR 25 were classified as other assets (Note 13). As at 31 December 2009 such assets in the amount of BYR 90 million were included within other assets (Note 13).

9. Available-for-sale assets

In millions of Belarusian Rubles	31 December 2010	31 December 2009
Debt instruments		
Short-term bonds of OJSC "Belgazprombank" (Republic of Belarus)	14,449	-
Long-term government bonds of the Ministry of Finance of the Republic of Belarus	-	8,150
Total available-for-sale assets	**14,449**	**8,150**

In 2010 the Bank sold long-term government bonds of the Ministry of Finance of the Republic of Belarus of 80,645 units prior to maturity. As at 31 December 2010 available-for-sale assets included short-term bonds of OJSC "Belgazprombank" in the amount of 15,000 units. The bonds are issued in Belarusian Rubles with fixed coupon interest rate of 16% and have a maturity in 2011.

10. Investment property

In millions of Belarusian Rubles	2010	2009
Balance as at 1 January	-	-
Acquisition	5,434	-
Net loss from fair value changes	(1,065)	-
Balance as at 31 December	**4,369**	-

In 2010 the Bank assumed title to residential real estate under construction as a result of repossession of collateral on loans. Initially it was recognized at the carrying value of loans repaid, as recorded in the statement of financial position. Subsequently, the fair value of the property was determined without involvement of professional independent valuers on the basis of available information on market prices for similar objects ranged between USD 1,700 and 2,250 per 1 square meter. The future discounted cash flows of the objects were discounted at the discount rate 15.4%, which is the average interest rate of long-term loans to corporate customers in the national currency, considered that the sell by period is 2 years.

The following table details the Bank's sensitivity to a 10% increase and 10% decrease in the market prices for objects similar to the Bank's investment property:

In millions of Belarusian Rubles	31 December 2010 Effect on income before income tax expense	31 December 2009 Effect on income before income tax expense
Increase of prices by 10%	437	-
Decrease of prices by 10%	(437)	-

The Bank has no any restrictions with regard to selling its investment property as well as no obligations to purchase, construct or improve the investment property, repair, maintain or upgrade it.

11. Property and equipment

In millions of Belarusian Rubles	Buildings	Vehicles	Office and computer equipment, other property and equipment	Construction in progress and assets not put into operation	Total
Net book value as at 31 December 2009	**975**	**603**	**3,402**	**2,890**	**7,870**
Cost					
Balance as at 1 January 2010	1,239	1,045	5,417	2,890	10,591
Additions	-	-	-	1,183	1,183
Transfers	201	4	651	(856)	-
Disposals	(43)	-	(355)	-	(398)
Balance as at 31 December 2010	**1,397**	**1,049**	**5,713**	**3,217**	**11,376**
Accumulated depreciation					
Balance as at 1 January 2010	264	442	2,015	-	2,721
Charge for the year	94	108	613	-	815
Accumulated depreciation on disposals	(24)	-	(325)	-	(349)
Balance as at 31 December 2010	**334**	**550**	**2,303**	**-**	**3,187**
Net book value as at 31 December 2010	**1,063**	**499**	**3,410**	**3,217**	**8,189**

In millions of Belarusian Rubles	Buildings	Vehicles	Office and computer equipment, other property and equipment	Construction in progress and assets not put into operation	Total
Net book value as at 31 December 2008	**848**	**515**	**3,413**	**3,305**	**8,081**
Cost					
Balance as at 1 January 2009	1,008	882	5,071	3,305	10,266
Additions	-	-	20	1,250	1,270
Transfers	231	195	1,239	(1,665)	-
Disposals	-	(32)	(913)	-	(945)
Balance as at 31 December 2009	**1,239**	**1,045**	**5,417**	**2,890**	**10,591**
Accumulated depreciation					
Balance as at 1 January 2009	160	367	1,658	-	2,185
Charge for the year	104	92	534	-	730
Accumulated depreciation on disposals	-	(17)	(177)	-	(194)
Balance as at 31 December 2009	**264**	**442**	**2,015**	**-**	**2,721**
Net book value as at 31 December 2009	**975**	**603**	**3,402**	**2,890**	**7,870**

12. Intangible assets

In millions of Belarusian Rubles	Software and licenses
Net book value as at 31 December 2009	**300**
Cost	
Balance as at 1 January 2010	511
Additions	189
Disposals	(54)
Balance as at 31 December 2010	**646**
Accumulated amortisation	
Balance as at 1 January 2010	211
Charge for the year	86
Accumulated amortization on disposals	(54)
Balance as at 31 December 2010	**243**
Net book value as at 31 December 2010	**403**

In millions of Belarusian Rubles	Software and licenses
Net book value as at 31 December 2008	**321**
Cost	
Balance as at 1 January 2009	484
Additions	64
Disposals	(37)
Balance as at 31 December 2009	**511**
Accumulated amortisation	
Balance as at 1 January 2009	163
Charge for the year	85
Accumulated amortization on disposals	(37)
Balance as at 31 December 2009	**211**
Net book value as at 31 December 2009	**300**

13. Other assets

In millions of Belarusian Rubles	31 December 2010	31 December 2009
Non-financial assets	**707**	**831**
Prepayments for property and equipment	298	22
Prepayments on taxes (other than income tax)	210	285
Advances paid to suppliers	125	386
Possession of collateral held as security	25	90
Other	49	48
Financial assets, net	**927**	**210**
Accrued commission income on other transactions	706	64
Due from other debtors on reimbursement of state fees	249	145
Settlements on sale of treasury shares	-	35
Other	15	11
Less allowance of impairment on financial assets	(43)	(45)
Total other assets	**1,634**	**1,041**

Below the movement in allowance for impairment for other assets during 2010 and 2009 is presented:

In millions of Belarusian Rubles	2010	2009
Allowance for impairment		
Balance as at 1 January	45	47
Recovery for the year	(2)	(2)
Balance as at 31 December	**43**	**45**

14. Due to the National Bank of the Republic of Belarus

In millions of Belarusian Rubles	Note	31 December 2010	31 December 2009
Nominal value		70,655	-
Amortized cost		38,395	-
Effect of initial recognition	24	32,841	-

15. Due to banks

In millions of Belarusian Rubles	31 December 2010	31 December 2009
Loans and deposits from banks	28,624	16,615
Correspondent accounts of other banks	84	46
Total due to banks	**28,708**	**16,661**

As at 31 December 2010 and 2009 the Bank had amounts due to one and two banks, respectively, whose balances exceeded 10% of Bank's equity. The carrying value of these balances as at 31 December 2010 and 2009 were BYR 10,500 million and BYR 15,415 million, respectively.

16. Customer accounts

In millions of Belarusian Rubles	31 December 2010	31 December 2009
Corporate customers		
- current accounts	36,989	19,609
- term deposits	56,206	41,320
Individuals		
- current accounts	1,142	615
- term deposits	69,184	18,844
Total customer accounts	**163,521**	**80,388**

Below the analysis of customer accounts by industry is presented:

In millions of Belarusian Rubles	31 December 2010	31 December 2009
Individuals	70,326	19,459
Trade	30,550	28,672
Industry	23,490	5,496
Science and education	10,861	571
Construction	10,347	2,154
Insurance	6,723	1,523
Real estate	2,624	1,586
Transport	1,610	1,525
Publishing	1,357	740
Telecommunication industry	1,258	12,320
Non-commercial organisations	994	127
Agriculture and food processing industry	875	25
Financial services	426	377
Data-processing service	381	393
Production of pharmaceuticals	114	477
Tourism	89	92
Lease	67	253
Public health and physical training	56	2
Other	1,373	4,596
Total customer accounts	**163,521**	**80,388**

As at 31 December 2010 and 2009 the Bank had two and three customers, respectively, whose balances exceeded 10% of total Bank's equity. These balances as at 31 December 2010 and 2009 were BYR 28,562 million and BYR 28,828 million, respectively.

17. Debt securities issued

In millions of Belarusian Rubles	Interest rate	Maturity date	Currency	31 December 2010	31 December 2009
Debt securities issued to corporate customers	7.50%	25.08.2011	USD	18,133	-
Debt securities issued to related parties	7.50%	25.08.2011	USD	1,723	-
Total debt securities issued				**19,856**	**-**

Debt securities are traded at an over-the-counter market.

18. Subordinated debt

In millions of Belarusian Rubles	31 December 2010	31 December 2009
Subordinated loan from European Bank for Reconstruction and Development	476	422
Subordinated loan from Deutsche Investitions und Entwicklungsgesellschaft (DEG)	15,947	-
Total subordinated loans	**16,423**	**422**

The subordinated loan from EBRD was received on 9 December 2008 in the amount of USD 4,009 thousand with a maturity on 6 October 2057 and a fixed interest rate of 0.5%. The loan was recognised at its fair value in the liabilities of the Bank with the fair value effect of initial recognition recognised in the equity as additional capital contributions in the amount of BYR 8,521 million.

In 2010 the subordinated loan from DEG of EUR 4,000 thousand has a maturity on 21 May 2016 and an interest rate of EUR LIBOR+6%.

The subordinated borrowings will be subordinated to the claims of depositors and all other creditors of the issuer in the event of the winding-up of the issuer.

19. Preference shares

As at 31 December 2010 and 2009 the Bank had outstanding 6,886,084 preference shares with a face value of BYR 785 per share. Annual minimum compulsory dividend income on preference shares amounts to USD 0.01394 per share. Preference shares do not have voting rights.

During the years 2010 and 2009 the Bank declared and paid dividends on preference share exceeding minimum compulsory dividend in the amount of BYR 62 million and BYR 344 million, respectively.

20. Provision for unused vacation

Movements in provision for unused vacations for the year ended 31 December 2010 and 31 December 2009 are as follows:

In millions of Belarusian Rubles	**2010**	**2009**
Balance as at 1 January	272	-
Charge for the year	94	272
Balance as at 31 December	**366**	**272**

21. Income taxes

The Bank provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the Republic of Belarus.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income items.

For the years ended 31 December 2010 and 2009 the income tax rate for Belarusian banks was 24% - for republican tax and 3% - for municipal tax. The rates are applied successively and the effective tax rate was 26.28%. As at 31 December 2010 the tax rate substantively enacted was 24% for periods after 31 December 2010 and has been used for the deferred tax calculation.

During 2010 and 2009 the head office and the branch of the Bank calculated and paid income taxes and other taxes and duties independently, at the local regional level.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Temporary differences as at 31 December 2010 and 2009 comprise:

In millions of Belarusian Rubles	**31 December 2010**	**31 December 2009**
Deductible temporary differences:		
Financial instruments at fair value through profit or loss	1,284	-
Other assets and other liabilities	1,549	924
Property, equipment and intangible assets	-	50
Investment property	1,065	-
Total deductible temporary differences	**3,898**	**974**
Deferred tax asset at the statutory tax rate (24% and 26.28%, respectively)	**936**	**256**
Taxable temporary differences:		
Financial instruments at fair value through profit or loss	-	(323)
Loans to banks and customers	(1,962)	(52)
Accrued income on financial assets recognised on a cash basis under tax legislation	(4,180)	(2,358)
Subordinated loan	(3,154)	(2,596)
Property, equipment and intangible assets	(65)	-
Total taxable temporary differences	**(9,361)**	**(5,329)**
Deferred tax liabilities at the statutory tax rate (24% and 26.28%, respectively)	**(2,247)**	**(1,400)**
Total net tax liability	**(1,311)**	**(1,144)**

Relationships between tax expense and the theoretical tax expense for the years ended 31 December 2010 and 2009 are explained as follows:

In millions of Belarusian Rubles	**2010**	**2009**
Profit before income tax	26,397	10,914
Theoretical tax at the statutory tax rate (26.28%)	**6,937**	**2,868**
Effect of initial recognition of financial instruments at fair value	(1,743)	-
Net non-deductible expenses	273	183
Effect of change in effective tax rate	(125)	-
Tax incentives on capital expenditure and securities	(547)	(117)
Income tax expense	**4,795**	**2,934**

Income tax expense is represented as follows:

In millions of Belarusian Rubles	**2010**	**2009**
Current tax expense	4,628	1,920
Deferred tax expense	167	1,014
Income tax expenses	**4,795**	**2,934**

Movement in deferred tax liability for the years ended 31 December 2010 and 2009 was as follows:

In millions of Belarusian Rubles	2010	2009
Deferred tax liability		
Balance as at 1 January	1,144	130
Charge for the year	167	1,014
Balance as at 31 December	**1,311**	**1,144**

22. Other liabilities

In millions of Belarusian Rubles	31 December 2010	31 December 2009
Non-financial liabilities	**1,120**	**354**
Allowance on loan commitments	470	77
Deferred income	238	15
Payments to the Individuals' Deposit Guarantee Fund	210	58
Accruals on other taxes, except for income tax	101	130
Other	101	74
Financial liabilities	**485**	**474**
Suspense account to be settled	151	143
Payables to suppliers	149	133
Dividends payable on preference shares	72	69
Other	113	129
Total other liabilities	**1,605**	**828**

Movements in the allowance for loan commitments for the years ended 31 December 2010 and 2009 are as follows:

In millions of Belarusian Rubles	2010	2009
Allowance for loan commitments		
Balance as at 1 January	77	55
Charge/recovery for the year	393	22
Balance as at 31 December	**470**	**77**

23. Equity

As at 31 December 2010 and 2009 issued and paid share capital consisted of 64,157,307 shares.

As at 31 December 2010 and 2009 the share capital was represented as follows:

In millions of Belarusian Rubles	31 December 2010	31 December 2009
Number of ordinary shares	64,157,307	38,265,587
Face value of 1 share, BYR	785	785
Face value of ordinary shares	50,364	30,039
Effect of hyperinflation	14,908	14,908
Total share capital	**65,272**	**44,947**

All ordinary shares are fully paid, carry one vote and have the right to receive dividends and participate in residual assets. All ordinary shares rank equally with regard to the Bank's residual assets. Preference shares have no voting rights and give the right to participate in residual assets and receive dividends.

The Bank's shareholders as at 31 December 2010 and 2009 were as follows:

	31 December 2010 % of total share capital	31 December 2009 % of total share capital
Limited Liability Company "Dikris"	23.97	37.50
European Bank for Reconstruction and Development	25.00	25.00
Tsybulin V.A.	18.08	21.79
Deutsche Investitions und Entwicklungsgesellschaft (DEG)	14.99	-
Joint Limited Liability Company "Speedster"	10.60	0.54
Tsybulina E.A.	4.57	7.20
Zhavrid V.A.	-	3.10
Limited Liability Company "Fenoks"	1.56	2.45
Other	1.23	2.42
Total	**100.00**	**100.00**

In 2010 the Bank issued shares of BYR 20,325 million, which were acquired at par value by EBRD, DEG, Joint Limited Liability Company "Speedster" and Tsybulin V.A.

In accordance with Belarusian legislation the Bank distributes its profits in the form of dividends or transfers profits to the reserves based on the accounting data prepared in accordance with Belarusian accounting legislation. As at 31 December 2010 and 2009 retained earnings of the Bank according to the national accounting rules amounted to BYR 25,523 million and BYR 11,554 million, respectively.

As at 31 December 2010and 2009 the reserve fund of BYR 3,521 million was recorded in equity under national accounting legislation. The reserve fund represents amounts reserved in accordance with the legislation of the Republic of Belarus to cover losses on the Bank operations and to increase share capital and are not subject to distribution to the shareholders. The size of the fund shall amount to 5% of share capital in accordance with the requirements of the National Bank of the Republic of Belarus in effect in 2010 and 2009, respectively.

24. Interest income and expense

In millions of Belarusian Rubles	2010	2009
Interest income		
Interest income on loans and receivables	53,063	34,459
Due from the National Bank of the Republic of Belarus	*586*	-
Due from banks	*2,146*	*3,147*
Loans to customers	*50,331*	*31,312*
Interest income on available-for-sale assets	967	52
Other interest income	75	671
Total interest income	**54,105**	**35,182**
Interest expense		
Interest expenses on financial liabilities at amortised cost	(13,128)	(9,748)
Due to the National Bank of the Republic of Belarus	*(725)*	-
Due to banks	*(1,008)*	*(1,808)*
Customer accounts	*(10,005)*	*(7,913)*
Debt securities issued	*(636)*	-
Subordinated debt	*(754)*	*(27)*
Interest expenses on preference shares	(288)	(344)
Total interest expense	**(13,416)**	**(10,092)**
Net interest income before effect of initial recognition	**40,689**	**25,090**
Net effect of initial recognition of financial instruments at fair value	6,650	-
Gain on initial recognition (Note14)	*32,841*	-
Loss on initial recognition (Note 6)	*(26,191)*	-
Net interest income	**47,339**	**25,090**

Interest income on loans to customers mostly represents interest income on impaired loans.

25. Fee and commission income and expenses

In millions of Belarusian Rubles	2010	2009
Fee and commission income		
Settlement and cash transactions fees	3,201	2,373
Foreign exchange fees	970	1,224
Collateral verification fee income	794	365
Agent fee	695	707
Other	191	91
Total fee and commission income	**5,851**	**4,760**
Fee and commission expense		
Plastic cards transaction	(259)	(220)
Settlement transactions fees	(144)	(112)
Foreign exchange fees	(77)	(70)
Other	(78)	(49)
Total fee and commission expenses	**(558)**	**(451)**
Net fee and commission income	**5,293**	**4,309**

26. Net foreign exchange income

In millions of Belarusian Rubles	2010	2009
Net (expenses)/income from revaluation of monetary assets and liabilities	(816)	2,721
Net income on foreign exchange transactions	6,932	5,126
Net foreign exchange income	**6,116**	**7,847**

27. Other net income

In millions of Belarusian Rubles	2010	2009
Penalty charges received	2,206	1,454
Gain on sale of assets held for sale	-	770
(Loss)/gain on sale of property and equipment	(46)	15
Change in fair value of investment property	(1,065)	-
Other income	808	182
Total other income	**1,903**	**2,421**

28. Administrative expenses

In millions of Belarusian Rubles	2010	2009
Employee compensation	9,915	7,570
Rent expenses	5,590	5,904
Payroll related taxes	3,154	2,485
Communications and information services	1,150	947
Software expenses	1,091	921
Repairs and maintenance	979	1,295
Depreciation and amortisation	901	815
Professional services (advisory, audit, legal, etc.)	819	352
Advertising and marketing	564	398
Security expenses	483	335
Taxes other than income tax	475	677
Delivery and encashment services	412	370
Payments to the Individual Deposits Security Fund	411	166
Transport expenses	185	166
Insurance	157	14
Other	1,047	880
Total administrative expenses	**27,333**	**23,295**

29. Cash and cash equivalents

For cash flow statement purposes cash and cash equivalents are presented as following:

In millions of Belarusian Rubles	31 December 2010	31 December 2009
Cash in hand and balances with National Bank of the Republic of Belarus	40,585	25,281
Nostro accounts	10,820	4,088
Less obligatory reserve deposit with the National Bank of the Republic of Belarus	(842)	(1,477)
Total cash and cash equivalents	**50,563**	**27,892**

30. Risk management

Risk management in the Bank is performed with respect to financial risks (credit, market, geographical, currency risks, liquidity and interest rate risk), as well as operational and legal risks.

The Board of Directors controls the proper functioning of the risk management system. The Management Board is responsible for evaluation of the effectiveness of the risk management system. The Finance and Credit Committees monitor and analyse the level of risks.

The Control and Risk Management Department is instructed with responsibilities relating to organization of effective risk management system, control of timely detection, identification, measurement, monitoring, control and limitation of bank risks level. This department monitors compliance with procedures for managing each type of risk. In order to predict changes in the level of the Bank's risks the Risk Manager performs stress-testing, which involves assessing effects of external and internal factors of the related risk on the Bank's activities.

The Internal Audit Department is instructed with responsibilities relating to implementation of audit functions within the organization of the overall system of internal controls in the Bank, as well as control of compliance with procedures for managing each of the major types of risks. Other departments of the Bank carry out the current management of banking risks within their powers.

Credit risk. The Bank takes on credit risk, i.e. the risk that one party to a financial instrument will fail to discharge an obligation, or will discharge untimely or not in full amount, and cause the other party to incur a financial loss. The purpose of credit risk management is to guarantee the maximal safety of assets by decreasing possible losses.

Credit risk regulation is performed by using the following procedures:

- separation of powers and responsibilities between authorised and executive bodies, committees, officials and departments of the Bank within credit risk management;
- organisation of adequate and relevant to the Bank's interests system of crediting legal entities and individual entrepreneurs, private individuals, the system of fixing limits on banks-counterparties;
- organization of a system to ensure fair evaluation of collateral on operations, having credit character;
- organization of independent primary and secondary examinations of credit projects and projects of limits on banks-counterparties;
- organization of effective work with bad debts;
- implementation of quality and timely analysis of the state and dynamics of the loan portfolio, safe functioning standards which characterize the level of credit risk, including sector analysis and analysis of credit portfolio concentration, fixing limits on sectors with high credit risk, as well as creating a system of quick and adequate response aimed at minimizing risk;
- development of the Bank's action plan in case of contingencies related to credit risk.

Detection, identification and assessment of credit risk level is realized by performing primary and secondary examinations of credit projects (projects of limits on bank-counterparty), thus achieving the resolution of the conflict of interests in decision-making process.

Primary examination (analysis (evaluation) of the bank-counterparty financial position and development of the limit for conducting active transactions with the bank-counterparty) is performed by the Economic agency (experts on banks) on the basis of assessment of the financial position and ability to promptly and fully recover funds transferred to it. Based on the analysis carried out a limit project on active operations with the bank-counterparty is developed. Secondary examination is performed by risk manager when considering a credit project, monitoring the borrower and financed transaction, as well as during development and monitoring of the limit on bank-counterparty. Acceptable level of credit risk with respect to a borrower is the limit on loan amount established by the decision of the Credit Committee of the Bank.

For prevention of credit risk increase the Bank regularly performs monitoring of the risk by borrowers, by loan agreements and by loan portfolio as a whole through monthly analysis of respective ratios. The Bank controls credit risk by setting limits by one borrower or a group of related borrowers and by products. The Bank forecasts fluctuations in exposure to credit risk by undertaking periodic stress-testing, which is based on assessment of potential effect internal and external credit risk factors. The bank creates a model where all or the majority of similar borrowers, grouped by industry, type of ownership and other criteria, experience a default, develops different scenarios of impact of such default (credit developments) on exposure to credit risk, forecasts the quality of loan portfolio and regulatory requirements related to credit risk. The results of stress-testing are submitted to the Finance Committee of the Bank for taking appropriate actions to minimize credit risk.

Credit risk management performed by respective departments includes also regular analysis of the ability of existing and potential borrowers to repay principle and interest and, if necessary, by obtaining collateral and guarantees from companies and individuals. The Bank analyses loans by maturities and monitors overdue balances. The respective departments submit the information on overdue loans as presented in Note 8 to the management.

Activities that give rise to credit risk and the associated maximum exposure to credit risk include:

(a) granting loans and receivables to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets as presented in the statement of financial position (Note 7 and Note 8);

(b) entering into derivative contracts, e.g. foreign exchange contracts. The maximum exposure to credit risk at the end of the reporting period will equal the carrying amount as presented in the statement of financial position (Note 6);

(c) granting financial guarantees. In this case, the maximum exposure to credit risk is the maximum amount the Bank could have to pay if the guarantee is called on, and is presented in Note 32;

(d) making a loan commitment that is irrevocable over the life of the facility or is revocable only in response to a material adverse change. If the issuer cannot settle the loan commitment net in cash or another financial instrument, the maximum credit exposure is the full amount of the commitment as presented in Note 32.

The credit risk on financial instruments not recognised in the statement of financial position is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the financial instruments recognised in its statement of financial position, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of contingencies not recognised in the statement of financial position as longer term commitments generally have a greater degree of credit risk than short-term commitments.

In order to minimize credit risk the Bank applies methods of the credit portfolio diversification by sector, type of collateral, credit products, forms of cash payment, types of transactions, currency and maturity.

Country risk. The country risk is a risk that the Bank incurs losses as a result of factors, which are not dependent on the financial position of the counterparty of the Bank, e.g. non-compliance of agreements with legislation of foreign countries, non-fulfillment of obligations by counterparties due to economic, political, social and other changes influencing their activities.

The geographical analysis of assets and liabilities of the Bank as at 31 December 2010 is presented as follows:

In millions of Belarusian Rubles	Belarus	OECD countries	Other countries	Total
Assets				
Cash and balances with the National Bank of the Republic of Belarus	40,585	-	-	40,585
Financial assets at fair value through profit or loss	161	-	-	161
Due from the National Bank of the Republic of Belarus	44,897	-	-	44,897
Due from banks	11,070	6,338	4,318	21,726
Loans to customers	241,379	-	-	241,379
Assets held for sale	14,449	-	-	14,449
Other assets	927	-	-	927
Total financial assets	**353,468**	**6,338**	**4,318**	**364,124**
Liabilities				
Financial liabilities at fair value through profit or loss	1,906	-	-	1,906
Due to the National Bank of the Republic of Belarus	38,395	-	-	38,395
Due to banks	22,105	6,603	-	28,708
Customer accounts	161,181	241	2,099	163,521
Debt securities issued	19,856	-	-	19,856
Subordinated debt	-	16,423	-	16,423
Preference shares	5,406	-	-	5,406
Other liabilities	479	6	-	485
Total financial liabilities	**249,328**	**23,273**	**2,099**	**274,700**
Net position	**104,140**	**(16,935)**	**2,219**	

The geographical analysis of assets and liabilities of the Bank as at 31 December 2009 is presented as follows:

In millions of Belarusian Rubles	Belarus	OECD countries	Other countries	Total
Assets				
Cash and balances with National Bank of the Republic of Belarus	25,281	-	-	25,281
Financial assets at fair value through profit or loss	145	-	-	145
Due from banks	391	1,927	2,434	4,752
Loans to customers	116,177	-	-	116,177
Assets held for sale	8,150	-	-	8,150
Other assets	210	-	-	210
Total financial assets	**150,354**	**1,927**	**2,434**	**154,715**
Liabilities				
Financial liabilities at fair value through profit or loss	429	-	2	431
Due to banks	7,826	8,835	-	16,661
Customer accounts	70,648	78	9,662	80,388
Subordinated debt	-	422	-	422
Preference shares	5,406	-	-	5,406
Other liabilities	530	2	-	532
Total financial liabilities	**84,839**	**9,337**	**9,664**	**103,840**
Net position	**65,515**	**(7,410)**	**(7,230)**	

Market risk. Market risk is related to open interest rate, currency positions, positions on issued securities and shares, which depend on general and specific market changes.

The identification and valuation of market risk is performed on a regular basis and is based on the information received from respective departments for the preparation of reports to the National Bank.

Currency risk. Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Currency risk management is carried out using the following methods:

- Organisation of a system for tracking the status and dynamics of the open foreign currency position - total and by types of currencies, as well as of the first response system aimed at minimizing foreign currency risk;
- Organization of the limit policy;
- Assessment of the currency risk level and the currency risk management quality.

The Bank determines limits by currencies and for financial statements as a whole. Limits are set and monitored for compliance at the end of each day as well as during the day. Treasury Department controls the net open currency position based on the accounting data for statement of financial position and off balance sheet assets and liabilities. The algorithm for calculating the open foreign currency position of the Bank and the inclusion of the currency risk in the calculation of capital adequacy is determined in accordance with the requirements of the National Bank of the Republic of Belarus.

The Bank's exposure to foreign currency exchange rate risk as at 31 December 2010 is presented in the table below:

In millions of Belarusian Rubles	**Belarusian Ruble**	**US Dollars**	**Euro**	**Russian Ruble**	**Other currencies**	**Total**
Assets						
Cash and balances with National Bank of the Republic of Belarus	30,534	5,289	3,653	1,089	20	40,585
Financial assets at fair value through profit or loss	83	78	-	-	-	161
Due from the National Bank of the Republic of Belarus	-	44,897	-	-	-	44,897
Due from banks	10,693	4,570	2,476	3,981	6	21,726
Loans to customers	215,206	13,361	10,962	1,850	-	241,379
Available-for-sale assets	14,449	-	-	-	-	14,449
Other assets	841	40	46	-	-	927
Total financial assets	**271,806**	**68,235**	**17,137**	**6,920**	**26**	**364,124**
Liabilities						
Financial liabilities at fair value through profit or loss	859	516	531	-	-	1,906
Due to the National Bank of the Republic of Belarus	38,395	-	-	-	-	38,395
Due to banks	-	17,149	11,557	2	-	28,708
Customer accounts	77,036	59,372	21,473	5,640	-	163,521
Debt securities issued	-	19,856	-	-	-	19,856
Subordinated debt	-	476	15,947	-	-	16,423
Preference shares	5,406	-	-	-	-	5,406
Other liabilities	455	17	13	-	-	485
Total financial liabilities	**122,151**	**97,386**	**49,521**	**5,642**	**-**	**274,700**
Net open currency position	**149,655**	**(29,151)**	**(32,384)**	**1,278**	**26**	**89,424**
Less adjustments for due from the National Bank of the Republic of Belarus	-	25,629	-	-	-	25,629
Less adjustments for due to the National Bank of the Republic of Belarus	(32,260)	-	-	-	-	(32,260)
Less adjustments for subordinated debt	-	(11,675)	-	-	-	(11,675)
Net open currency position after adjustments	**117,395**	**(15,197)**	**(32,384)**	**1,278**	**26**	**71,118**

Effect of foreign currency derivatives and spot transactions is presented as follows:

In millions of Belarusian Rubles	**Belarusian Ruble**	**US Dollars**	**Euro**	**Russian Ruble**	**Other currencies**	**Total**
Accounts receivable on derivative contracts	26,895	52,500	21,849	-	-	101,244
Accounts payable on derivative contracts	(79,874)	(26,130)	-	-	-	(106,004)
Net position on derivatives	**(52,979)**	**26,370**	**21,849**	**-**	**-**	**(4,760)**
Accounts receivable on spot transactions	-	200	10,929	-	-	11,129
Accounts payable on spot transactions	-	(10,927)	(7)	-	-	(10,934)
Net position on spot transactions	**-**	**(10,727)**	**10,922**	**-**	**-**	**195**
Total net open currency position	**64,416**	**446**	**387**	**1,278**	**26**	**66,553**

The Bank's exposure to foreign currency exchange rate risk as at 31 December 2009 is presented in the table below:

In millions of Belarusian Rubles	**Belarusian Ruble**	**US Dollars**	**Euro**	**Russian Ruble**	**Other currencies**	**Total**
Assets						
Cash and balances with National Bank of the Republic of Belarus	19,041	2,341	2,873	1,003	23	25,281
Financial assets at fair value through profit or loss	-	-	145	-	-	145
Due from banks	-	1,557	949	2,242	4	4,752
Loans to customers	67,560	31,958	16,164	495	-	116,177
Available-for-sale assets	8,150	-	-	-	-	8,150
Other assets	209	1	-	-	-	210
Total financial assets	**94,960**	**35,857**	**20,131**	**3,740**	**27**	**154,715**
Liabilities						
Financial liabilities at fair value through profit or loss	-	370	61	-	-	431
Due to banks	4,700	8,876	3,083	2	-	16,661
Customer accounts	35,722	17,410	23,561	3,694	1	80,388
Subordinated debt	-	422	-	-	-	422
Preference shares	5,406	-	-	-	-	5,406
Other liabilities	517	6	9	-	-	532
Total financial liabilities	**46,345**	**27,084**	**26,714**	**3,696**	**1**	**103,840**
Net open currency position	**48,615**	**8,773**	**(6,583)**	**44**	**26**	**50,875**
Less adjustments for subordinated debt	-	(11,117)	-	-	-	(11,117)
Net open currency position after adjustments	**48,615**	**(2,344)**	**(6,583)**	**44**	**26**	**39,758**

Effect of foreign currency derivatives is presented as follows:

In millions of Belarusian Rubles	Belarusian Ruble	US Dollars	Euro	Russian Ruble	Other currencies	Total
Accounts receivable on derivative contracts	-	10,021	10,676	-	-	20,697
Accounts payable on derivative contracts	(20,696)	(2,466)	-	-	-	(23,162)
Net position on derivatives	**(20,696)**	**7,555**	**10,676**	**-**	**-**	**(2,465)**
Total net open currency position	**27,919**	**5,211**	**4,093**	**44**	**26**	**37,293**

As at 31 December 2010 deposits placed with the National Bank of the Republic of Belarus at non-market rates were recognised at fair value on initial recognition, which resulted in an adjustment of BYR 26,191 in value (Note 24). As a result of this recognition a net short position in US Dollars was formed. However, according to Belarusian banking legislation and regulations the open currency position is calculated based on the nominal values of financial instruments. As at 31 December 2010 and 2009 the Bank was in full compliance with open currency rules and regulations established by the National Bank of the Republic of Belarus.

As at 31 December 2010 and 2009 the Bank had a subordinated loan received from its shareholder, which was denominated in US Dollars (Note 18). The part of the loan recognised as additional capital contribution has been accounted as an adjustment for calculation of net currency position.

The Bank granted a significant part of loans in foreign currencies. Depending on the currency of cash flows received by the Bank's borrowers, increase in exchange rates of foreign currencies may have a negative impact on the ability of borrowers to repay loans resulting, consequently, in higher probability of default on loans.

The following table details the Bank's sensitivity to a 30% increase and 10% decrease in the main convertible currencies against the BYR. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 30% and 10% change in foreign currency rates:

In millions of Belarusian Rubles	**2010**		**2009**	
	Effect on income before income tax expense	**Effect on equity (26.28%)**	**Effect on income before income tax expense**	**Effect on equity (26.28%)**
Strengthening of US Dollar by 30%	134	99	1,563	1,152
Weakening of US Dollar by 10%	(45)	(33)	(521)	(384)
Strengthening of Euro by 30%	116	86	1,228	905
Weakening of Euro by 10%	(39)	(29)	(409)	(302)
Strengthening of RUB by 30%	383	282	13	10
Weakening of RUB by 10%	(128)	(94)	(4)	(3)
Strengthening of other currencies by 30%	8	6	8	6
Weakening of other currencies by 10%	(3)	(2)	(3)	(2)

The above tables demonstrate the effect of a change in a key assumption while the other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

Liquidity risk. Liquidity risk – is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The purpose of the liquidity risk management is the maintanance of the optimal balanced financial assets and financial liabilities structure by implementing the following tasks:

- separation of powers and responsibilities between authorised and executive bodies, committees, officials and departaments of the Bank within liquidity risk management;
- organisation of adequate and relevant to the Bank's interests system of financial assets and liabilities management;
- organization of quality and timely monitoring and analysis of the current state of liquidity, safe operation standards, characterizing liquidity risk level, structure and dynamics of the resource base and financial investments, liquidity gaps;
- organization of stress-testing and early warning systems to identify the causes and factors affecting the change in the liquidity risk, and modeling the behavior of liquidity in the future;
- creation of the system of quick and adequate response aimed at minimizing the liquidity risk, development of action plans of the Bank in case of contingencies associated with increase in liquidity risk.

The Bank maintains the stable financing base, which comprises mainly deposits from the National Bank of the Republic of Belarus, due to other banks, including long-term loans from EBRD, current accounts and deposits of corporate customers and individuals, a long-term subordinated loans received from EBRD and DEG, and invests funds in diversified portfolios of liquid assets in order to have possibility to meet unforeseen liquidity requirements immediately without delays.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the National Bank of the Republic of Belarus. These ratios include:

- *Quick liquidity* is calculated as the ratio of the amount of demand assets to demand liabilities (minimum 20%).
- *Current liquidity* is calculated as the ratio of the amount of assets with maturities of less than 30 days from the reporting date, including demand assets, to liabilities with the maturities of less than 30 days from the reporting date, including demand liabilities (minimum 70%).
- *Short-term liquidity* is calculated as the ratio of the amount of assets with maturities of less than 1year from the reporting date to liabilities with the maturities of less than 1 year from the reporting date, (minimum 1).

The tables below represent the remaining contractual maturity of financial liabilities based on the undiscounted cash flows of financial liabilities (both interest and principal cash flows) based on the earliest date, on which the Bank can be required to pay, and inflows/outflows on derivative financial instruments.

The table represents analysis of financial liabilities as described above by contractual maturities as at 31 December 2010:

In millions of Belarusian Rubles	**Carrying amount**	**Undis-counted cash flows**	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Maturity unde-fined**
Non-derivative financial liabilities	**272,794**								
Due to the National Bank of the Republic of Belarus	38,395	75,698	-	-	-	-	14,420	61,278	-
Due to banks	28,708	28,786	17,239	11,547	-	-	-	-	-
Customer accounts	163,521	172,055	61,914	18,985	16,628	25,062	49,466	-	-
Debt securities issued	19,856	20,816	-	373	360	20,083	-	-	-
Subordinated debt	16,423	37,258	-	-	496	608	4,829	31,325	-
Preference shares	5,406	5,406	-	-	-	-	-	-	5,406
Other financial liabilities	485	485	395	72	2	-	16	-	-
Loan commitments		21,269	16,292	4,077	496	340	64	-	-
Total future potential cash outflows on non-derivative financial liabilities		**361,773**	**95,840**	**35,054**	**17,982**	**46,093**	**68,795**	**92,603**	**5,406**
Derivatives									
Outflow		106,004	19,500	-	-	6,671	79,833	-	-
Inflow		(101,244)	(19,672)	-	-	(6,000)	(75,572)	-	-
Total future potential cash outflows on financial liabilities		**366,533**	**95,668**	**35,054**	**17,982**	**46,764**	**73,056**	**92,603**	**5,406**

The table represents analysis of financial liabilities as described above by contractual maturities as at 31 December 2009:

In millions of Belarusian Rubles	**Carrying amount**	**Undis-counted cash flows**	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Maturit y unde-fined**
Non-derivative financial liabilities	**103,409**								
Due to banks	16,661	17,417	6,009	45	3,286	1,574	6,503	-	-
Customer accounts	80,388	85,999	30,596	7,726	8,379	27,278	11,983	37	-
Subordinated debt	422	14,282	-	-	-	-	-	14,282	-
Preference shares	5,406	5,406	-	-	-	-	-	-	5,406
Other financial liabilities	532	532	532	-	-	-	-	-	-
Loan commitments		13,713	12,245	714	-	450	253	51	-
Total future potential cash outflows on non-derivative financial liabilities		**137,349**	**49,382**	**8,485**	**11,665**	**29,302**	**18,739**	**14,370**	**5,406**
Derivatives									
Outflow		23,162	2,466	4,711	-	4,479	11,506	-	-
Inflow		(20,697)	(2,464)	(4,295)	-	(4,106)	(9,832)	-	-
Total future potential cash outflows on financial liabilities		**139,814**	**49,384**	**8,901**	**11,665**	**29,675**	**20,413**	**14,370**	**5,406**

The Bank does not apply the above analysis by maturities based on undiscounted cash outflows on a constant basis. Instead, the Bank controls maturity terms and interest rate risk as described in the tables below:

In millions of Belarusian Rubles	Effective interest rate	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Maturity undefined	Total 31 December 2010
Assets									
Interest bearing assets									
Due from the National Bank of the Republic of Belarus	8.5%	-	-	-	-	9,582	35,315	-	44,897
Due from banks	0.2-10%	8,210	-	10,693	-	-	-	-	18,903
Loans to customers	20-32%	12,960	27,950	28,490	32,469	137,823	1,687	-	241,379
Available-for-sale assets	16%	-	-	14,449	-	-	-	-	14,449
Total interest bearing assets		**21,170**	**27,950**	**53,632**	**32,469**	**147,405**	**37,002**	**-**	**319,628**
Non-interest bearing assets									
Cash and balances with National Bank of the Republic of Belarus		39,743	-	-	-	-	-	842	40,585
Financial assets at fair value through profit or loss		83	-	-	-	78	-	-	161
Due from banks		2,610	-	-	-	-	-	213	2,823
Other assets		55	-	-	-	-	-	872	927
Total financial assets		**63,661**	**27,950**	**53,632**	**32,469**	**147,483**	**37,002**	**1,927**	**364,124**
Liabilities									
Interest bearing liabilities									
Due to the National Bank of the Republic of Belarus	12.7%	-	-	-	-	8,679	29,716	-	38,395
Due to banks	2-5%	17,103	11,521	-	-	-	-	-	28,624
Customer accounts	3-23%	54,851	15,179	13,807	22,461	48,114	-	-	154,412
Debt securities issued	7.5%	-	146	-	19,710	-	-	-	19,856
Preference shares	5%	-	-	-	-	-	-	5,406	5,406
Subordinated debt	7-8%	-	-	56	-	-	16,367	-	16,423
Total interest bearing liabilities		**71,954**	**26,846**	**13,863**	**42,171**	**56,793**	**46,083**	**5,406**	**263,116**
Non-interest bearing liabilities									
Financial liabilities at fair value through profit or loss		-	-	-	374	1,532	-	-	1,906
Due to banks		84	-	-	-	-	-	-	84
Customer accounts		6,334	2,128	647	-	-	-	-	9,109
Other liabilities		395	72	2	-	16	-	-	485
Total financial liabilities		**78,767**	**29,046**	**14,512**	**42,545**	**58,341**	**46,083**	**5,406**	**274,700**
Liquidity gap		(15,106)	(1,096)	39,120	(10,076)	89,142	(9,081)		
Interest sensitivity gap		(50,784)	1,104	39,769	(9,702)	90,612	(9,081)		
Cumulative interest sensitivity gap		(50,784)	(49,680)	(9,911)	(19,613)	70,999	61,918		
Cumulative interest sensitivity gap as a percentage of total financial assets		(14%)	(14%)	(3%)	(5%)	19%	17%		

In millions of Belarusian Rubles	Effective interest rate	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Maturity undefined	Total 31 December 2009
Assets									
Interest bearing assets									
Due from banks	0.2-3%	3,127	-	-	-	-	-	-	3,127
Loans to customers	15-45%	7,096	14,885	21,642	25,957	45,439	1,158	-	116,177
Available-for-sale assets	10%	-	-	-	-	8,150	-	-	8,150
Total interest bearing assets		**10,223**	**14,885**	**21,642**	**25,957**	**53,589**	**1,158**	**-**	**127,454**
Non-interest bearing assets									
Cash and balances with National Bank of the Republic of Belarus		23,804	-	-	-	-	-	1,477	25,281
Financial assets at fair value through profit or loss		-	-	-	-	145	-	-	145
Due from banks		962	563	-	-	-	-	100	1,625
Other assets		112	-	-	1	-	--	97	210
Total financial assets		**35,101**	**15,448**	**21,642**	**25,958**	**53,734**	**1,158**	**1,674**	**154,715**
Liabilities									
Interest bearing liabilities									
Due to banks	6-20%	6,173	-	3,080	1,227	6,135	-	-	16,615
Customer accounts	6-24%	23,489	6,700	6,993	25,509	11,051	37	-	73,779
Preference shares	8%	-	-	-	-	-	-	5,406	5,406
Subordinated debt	8%	-	-	-	-	-	422	-	422
Total interest bearing liabilities		**29,662**	**6,700**	**10,073**	**26,736**	**17,186**	**459**	**5,406**	**96,222**
Non-interest bearing liabilities									
Financial liabilities at fair value through profit or loss		2	294	-	59	76	-	-	431
Due to banks		46	-	-	-	-	-	-	46
Customer accounts		6,609	-	-	-	-	-	-	6,609
Other liabilities		427	71	-	-	31	-	3	532
Total financial liabilities		**36,746**	**7,065**	**10,073**	**26,795**	**17,293**	**459**	**5,409**	**103,840**
Liquidity gap		(1,645)	8,383	11,569	(837)	36,441	699		
Interest sensitivity gap		(19,439)	8,185	11,569	(779)	36,403	699		
Cumulative interest sensitivity gap		(19,439)	(11,254)	315	(464)	35,939	36,638		
Cumulative interest sensitivity gap as a percentage of total financial assets		(13%)	(7%)	0%	(0%)	23%	24%		

The Bank's management believes that coincidence and/or controlled non-coincidence of terms of placement and maturity and interest rates of assets and liabilities is a fundamental factor for successful Bank management. As a rule, there is no full coincidence of the stated positions, as operations often have not fixed maturity and different nature. Non-coincidence of these positions potentially raises profitability of an activity and at the same time the risk of losses arises. Maturity of assets and liabilities and a possibility to substitute interest liabilities at an acceptable cost as they mature is an important factor of Bank's liquidity assessment and of its risks in case of changes of interest rates and currency exchange rates.

As at 31 December 2010 the Bank had a breach of a financial covenant (liquid assets to total assets ratio) set in the long-term loan agreement with a lender due the exclusion from liquid assets of the deposits in the National Bank of the Republic of Belarus, which are considered as liquid assets based on the statutory legislation irrespective of terms. As at the date of approval of these financial statements for issue, the Bank received no notice from the lender for early repayment of the loan. The loan in the amount of BYR 6,603 million was shown as payable on demand within 1 month in liquidity analysis.

The management of the Bank also believes that notwithstanding the sufficient share of customer account balances, which are demand, the diversification of such funds according to the quantity and type of customers as well as the previous experience of the Bank evidence that these funds form a long-term and stable source of financing of the Bank activities.

Interest rate risk. The Bank is exposed to the risk of fluctuations of market interest rates and their influence on its financial position and cash flows. Such fluctuations may result in increase of interest margin, but in case of unexpected changes of interest rates the interest margin can be also decreased or generate losses.

The Bank is subject to interest risk mainly to loan granting at fixed interest rates in amounts and for the periods, which differ from the amounts and periods of fund raising with floating interest rates. In practice interest rates, as a rule, are set for a short period. Moreover, interest rates, fixed in agreements both for assets and liabilities are often reviewed on the basis of mutual agreement in accordance with a current market situation.

Detection, identification and evaluation of interest rate risk are performed monthly by calculating the parameters of interest policy and comparing their values with the parameters established in the process of elaboration and approval of the annual budget of the Bank (projected statement of financial position and financial plan of the Bank). The structure of interest policy parameters of the Bank includes the return of financial assets, the value of financial liabilities, interest spread, interest margin, the gap (according to maturity) between financial assets and financial liabilities sensitive to changes in interest rates, and others.

In the process of ongoing monitoring the Bank also assesses the composition and dynamics of financial assets and financial liabilities, their structure, analysis of interest rates, earlier and currently effective in the money markets of the Republic of Belarus and states residents of which are major counterparties of the Bank, and their impact on changes in the level of interest rate risk.

As at 31 December 2010 and 2009 the balances of financial instruments carried at floating rates were as follows:

In millions of Belarusian Rubles	**31 December 2010**	**31 December 2009**
Assets		
Due from banks	7,918	2,885
Loans to customers	2,115	-
Total assets at floating rates	**10,033**	**2,885**
Liabilities		
Due to banks	6,603	8,835
Customer accounts	5,027	1,262
Subordinated debt	15,947	-
Total liabilities at floating rates	**27,577**	**10,097**

The table below represents impact on income and equity of change by 100 basis points in floating interest rate instruments as at the reporting date with assumption that all other terms are unchangeable:

In millions of Belarusian Rubles	31 December 2010		31 December 2009	
	Impact on income before income tax expense	**Impact on equity (26.28%)**	**Impact on income before income tax expense**	**Impact on equity (26.28%)**
Increase of interest rates by 100 basis points	(175)	(129)	(72)	(53)
Decrease of interest rates by 100 basis points	175	129	72	53

Operational risk. Operational risk refers to potential losses faced by the Bank as a result of non-compliance of internally established procedures and regulations related to banking and other operations with Belarusian legislation or violation of these procedures by personnel, their incompetence and errors, inadequacy or failures of bank systems (including informational), as well as resulting from external factors. Operational risk management consists of ongoing process of identification, assessment, monitoring, control and reporting to the Management. Control over operational risk level is carried out within the framework of internal control system and is based on the principles of multilateral and multilevel internal control, covering all the Bank's departments.

31. Capital management

The Bank manages its capital to ensure compliance with prudential requirements and the ability to continue as a going concern while providing a return to stakeholders through the optimisation of the debt and equity balance.

The Bank reviews the capital structure on a monthly basis. As a part of this review, the capital adequacy ratio is determined by comparing the Bank's own regulatory funds with a quantified assessment of the risks it undertakes (risk-weighted assets). The Bank's management considers weighted average cost of capital and risks associated with each class of capital, and balances its overall capital structure through the attraction of additional and redemption of existing debt.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

The ratios were calculated according to the principles employed by the Basle Committee by applying the appropriate risk estimates to the assets net of allowances for losses and contingent liabilities.

As at 31 December 2010 the Bank's total capital amount for capital adequacy purposes was BYR 121,802 million and tier 1 capital amount was BYR 91,452 million with ratios of 39.4% and 29.6%, respectively.

As at 31 December 2009 the Bank's total capital amount for capital adequacy purposes was BYR 64,006 million and tier 1 capital amount was BYR 49,657 million with ratios of 48.4 % and 37.6%, respectively.

32. Contingencies

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Tax legislation. In opinion of the management of the Bank, restructuring of the taxable income and deductible expenses will not lead to charging the additional tax liabilities. Correspondingly, the management accrued no provisions for potential tax liability as to such operations.

If any transaction is disputed by tax authorities, additional amounts of taxes can be charged and significant fines and penalties could occur.

As at 31 December 2010 and 2009 the management believe that the Bank adheres to the adequate interpretations of the current legislation and the Bank's position in relation to tax issues will be supported by the controlling authorities.

Operating lease commitments. Below the future minimum non-cancellable operating lease payments under agreements where the Bank is a lessee are presented:

In millions of Belarusian Rubles	**31 December 2010**	**31 December 2009**
Less than 1 year	5,006	5,405
From 1 to 5 years	14,801	16,214
More than 5 years	3,654	6,973
Total operating lease commitments	**23,461**	**28,592**

Loan commitments. In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position. The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

Loan commitments of the Bank were as following:

In millions of Belarusian Rubles	**31 December 2010**	**31 December 2009**
Unused credit lines	16,155	12,217
Guarantees issued	3,061	955
Letters of credit	2,525	618
Less allowance for impairment	(470)	(77)
Total loan commitments	**21,271**	**13,713**

Movement in allowance on loan commitments is presented in Note 22.

33. Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The best evidence of the fair value is the quotation of financial instrument in an active market. As there is no active market for the main part of financial instruments, their fair value is determined based on the current market situation and specific risks attributable to the specific instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

Below the fair value of financial instruments as at 31 December 2010 and 2009 is presented:

	31 December 2010		31 December 2009	
In millions of Belarusian Rubles	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash and balances with National Bank of the Republic of Belarus	40,585	40,585	25,281	25,281
Financial assets at fair value through profit or loss	161	161	145	145
Due from the National Bank of the Republic of Belarus	44,897	44,897	-	-
Due from banks	21,726	21,726	4,752	4,752
Loans to customers	241,379	241,379	116,177	116,177
Available-for-sale assets	14,449	14,449	8,150	8,150
Other financial assets	927	927	210	210
Total financial assets	**364,124**	**364,124**	**154,715**	**154,715**
Financial liabilities				
Financial liabilities at fair value through profit or loss	1,906	1,906	431	431
Due to the National Bank of the Republic of Belarus	38,395	38,794	-	-
Due to banks	28,708	28,708	16,661	16,661
Customer accounts	163,521	163,521	80,388	80,848
Debt securities issued	19,856	19,856	-	-
Subordinated debt	16,423	17,172	422	965
Preference shares	5,406	5,406	5,406	5,406
Other financial liabilities	485	485	532	532
Total financial liabilities	**274,700**	**275,848**	**103,840**	**104,843**

Due from the National Bank of the Republic of Belarus, due from banks, due to banks, customer accounts, subordinated debt. The fair value of balances placed at floating interest rates represents their fair value. The estimated fair value of balances placed/received under fixed interest rates is based on the calculation of discounted cash flows by applying interest rates of the financial instruments with credit risk and similar maturities. The Bank's management believes that the carrying value of due to and from banks as at 31 December 2010 and 2009 did not significantly differ from their fair value as fixed rate instruments reprice in the short term

The carrying value funds due from the National Bank of the Republic of Belarus relating to deposits exchange transactions (Note 6) and, respectively, funds due to the National Bank of the Republic of Belarus (Note 14) as at 31 December 2010 did not significantly differ from the fair value recorded as at initial recognition cash flows were discounted using interest rates prevailing on the market for similar instruments at the time of funds (deposits) allocation which did not significantly differ from market interest rates effective on reporting date .

The Bank's management believes that the carrying value of customer accounts as at 31 December 2010 and 2009 did not significantly differ from their fair value, except for balances with related parties under higher than market rates as at 31 December 2009 described in Note 35.

As at 31 December 2010 and 2009 the fair value of subordinated debt has increased in relation to its carrying value due to significant decrease in rates on interbank placements.

Loans to customers. Loans to customers are measured less allowance for impairment. The fair value of loans to customers represents the discounted estimated cash flows. In order to determine the fair value, estimated cash flows are discounted at current interest rates. The Bank's management believes that the carrying value of loans to customers as at 31 December 2010 and 2009 did not significantly differ from their fair value. This fact is evidenced by the existing practice to review interest rates to reflect current market conditions. As a result interest on the major part of balances is accrued at the rates that are approximately equal to market interest rates.

34. Operating segments

The Bank operates in two main business segments:

- services to individuals - maintenance of current accounts, receipt of deposits, granting of loans, performance of settlements on behalf of individuals, servicing of bank cards, custody services;

- services to legal entities - cash management services to enterprises and organizations (both residents and non residents of the Republic of Belarus), attraction of deposits, placing of own debt securities issued, granting of loans and other types of financing, implementation of documentary transactions, transactions with securities.

Below is the information on business segments for 2010:

In millions of Belarusian Rubles	**Services to individuals**	**Services to legal entities**	**Other/ not distributed**	**Total**
Interest income	40,456	9,875	3,774	54,105
Interest expense	(4,624)	(6,737)	(2,055)	(13,416)
Net interest income before effect of initial recognition of financial instruments	**35,832**	**3,138**	**1,719**	**40,689**
Net effect of initial recognition of financial instruments at fair value	-	-	6,650	6,650
Net interest income	**35,832**	**3,138**	**8,369**	**47,339**
Fee and commission income	372	4,403	1,076	5,851
Fee and commission expense	-	(40)	(518)	(558)
Net fee and commission income	**372**	**4,363**	**558**	**5,293**
Net expenses on financial instruments at fair value through profit or loss	-	-	(2,225)	(2,225)
Net foreign exchange income	-	-	6,116	6,116
Net expenses on available-for-sale assets	-	-	(295)	(295)
Other net income	3,053	24	(1,174)	1,903
Operating income	**39,257**	**7,525**	**11,349**	**58,131**
Administrative expenses	(411)	-	(26,922)	(27,333)
Net increase in impairment allowance on financial assets	(2,178)	(1,738)	-	(3,916)
Net decrease in impairment allowance on other financial assets	-	-	2	2
Net increase in impairment allowance on loan commitments	(10)	(383)	-	(393)
Net change in provision for unused vacations	-	-	(94)	(94)
The financial result of the segment	**36,658**	**5,404**	**(15,665)**	**26,397**
Income tax expense	-	-	-	(4,795)
Net profit for the period				**21,602**
Segment asssets	177,025	64,354	136,413	377,792
Segment liabilities	70,326	113,051	94,442	277,819
Other segment information				
Loans to customers	177,025	64,354	-	241,379
Customer accounts	70,326	93,195	-	163,521
Debt securities issued	-	19,856	-	19,856

The comparative information on business segments for the year ended 31 December 2009 is presented below:

In millions of Belarusian Rubles	**Services to individuals**	**Services to legal entities**	**Other/ not distributed**	**Total**
Interest income	24,392	6,920	3,870	35,182
Interest expense	(1,978)	(5,934)	(2,180)	(10,092)
Net interest income	**22,414**	**986**	**1,690**	**25,090**
Fee and commission income	249	3,567	944	4,760
Fee and commission expense	-	(35)	(416)	(451)
Net fee and commission income	**249**	**3,532**	**528**	**4,309**
Net expenses on financial instruments at fair value through profit or loss	-	-	(311)	(311)
Net foreign exchange income	-	-	7,847	7,847
Net income on available-for-sale assets	-	-	12	12
Other net income	1,678	8	735	2,421
Operating income	**24,341**	**4,526**	**10,501**	**39,368**
Administrative expenses	(166)	-	(23,129)	(23,295)
Net increase in impairment allowance on financial assets	(2,898)	(1,969)	-	(4,867)
Net decrease in impairment allowance on other financial assets	-	-	2	2
Net decrease/(increase) in impairment allowance on loan commitments	2	(24)	-	(22)
Net change in provision for unused vacations	-	-	(272)	(272)
The financial result of the segment	**21,279**	**2,533**	**(12,898)**	**10,914**
Income tax expenses	-	-	-	(2,934)
Net profit for the period				**7,980**
Segment asssets	68,274	47,903	47,598	163,775
Segment liabilities	19,459	60,929	25,209	105,597
Other segment information				
Loans to customers	68,274	47,903	-	116,177
Customer accounts	19,459	60,929	-	80,388

35. Related parties

In the ordinary course of business the Bank performs transactions with the main shareholders, management of the Bank and other related parties. These transactions include loan granting and attraction, and other transactions. Based on the Bank's policy transactions with related parties are performed on terms as those with third parties, except of subordinated loan received under favourable terms from EBRD (Note 18).

As at 31 December 2009 the Bank attracted customer accounts from shareholders denominated in US Dollars in equivalent of BYR 10,676 million under interest rates from 11% to 13.6% with maturities in from one to two years. The fair value of the customer accounts as at 31 December 2009 is disclosed in Note 33.

Below the balances with related parties as at 31 December 2010 and 2009 are presented:

In millions of Belarusian Rubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Loans to customers			
Balance as at 31 December 2009	3,502	5,282	186
Loan granted	2,076	-	808
Loans repaid	(2,188)	(3,999)	(895)
Exchange differences	(152)	214	7
Accrued interest income as at 31 December 2010	11	5	-
Balance as at 31 December 2010	**3,249**	**1,502**	**106**
Allowance for impairment of loans to customers			
Balance as at 31 December 2009	-	-	-
Recovery	-	-	-
Balance as at 31 December 2010	-	-	-
Loans to customers as at 31 December 2009 (less allowance for impairment)	**3,502**	**5,282**	**186**
Loans to customers as at 31 December 2010 (less allowance for impairment)	**3,249**	**1,502**	**106**
Due to banks			
Balance as at 31 December 2009	8,834	-	-
Loans and advances received	-	-	-
Loans and advances paid	(2,765)	-	-
Exchange differences	360	-	-
Accrued interest expenses as at 31 December 2010	174	-	-
Balance as at 31 December 2010	**6,603**	-	-
Subordinated debt			
Balance as at 31 December 2009	422	-	-
including accrued interest expenses as at 31 December 2009	*30*	-	-
Subordinated debt received	14,639	-	-
Exchange differences	1,269	-	-
Accrued interest expenses as at 31 December 2010	123	-	-
Balance as at 31 December 2010	**16,423**	-	-
Customer accounts			
Balance as at 31 December 2009	591	10,732	117
Balances on customer accounts received	30,313	6,807	1,667
Balances on customer accounts paid	(30,289)	(17,548)	(1,389)
Exchange differences	12	50	4
Accrued interest expenses as at 31 December 2010	2	-	1
Balance as at 31 December 2010	**629**	**41**	**400**
Securities issued by the Bank			
Securities as at 31 December 2009	-	-	-
Securities, placed during the year	1,722	-	-
Securities redeemed during the year	-	-	-
Exchange differences	-	-	-
Accrued interest expenses as at 31 December 2010	1	-	-
Balance as at 31 December 2010	**1,723**	-	-

In millions of Belarusian Rubles	Shareholders	Entities under common control	Key management personnel
Loans to customers			
Balance as at 31 December 2008	-	1,039	152
Loan granted	3,470	5,156	310
Loans repaid	-	(1,039)	(303)
Exchange differences	17	103	25
Accrued interest income as at 31 December 2009	15	23	2
Balance as at 31 December 2009	**3,502**	**5,282**	**186**
Allowance for impairment of loans to customers			
Balance as at 31 December 2008	-	-	(1)
Recovery	-	-	1
Balance as at 31 December 2009	-	-	-
Loans to customers as at 31 December 2008 (less allowance for impairment)	-	**1,039**	**151**
Loans to customers as at 31 December 2009 (less allowance for impairment)	**3,502**	**5,282**	**186**
Due to banks			
Balance as at 31 December 2008	6,826	-	-
Loans and advances received	-	-	-
Loans and advances paid	(226)	-	-
Exchange differences	1,988	-	-
Accrued interest expenses as at 31 December 2009	246	-	-
Balance as at 31 December 2009	**8,834**	-	-
Subordinated debt			
Balance as at 31 December 2008	300	-	-
Exchange differences	92	-	-
Accrued interest expenses as at 31 December 2009	30	-	-
Balance as at 31 December 2009	**422**	-	-
Customer accounts			
Balance as at 31 December 2008	75	14,551	36
Balances on customer accounts received	11,124	10,029	853
Balances on customer accounts paid	(10,613)	(17,944)	(782)
Exchange differences	3	4,092	10
Accrued interest expenses as at 31 December 2009	2	4	-
Balance as at 31 December 2009	**591**	**10,732**	**117**

The transactions with financial instruments at fair value through profit or loss with related parties as at 31 December 2010 are presented below:

In millions of Belarusian Rubles	Shareholders	Entities under common control	Key management personnel
Financial liabilities at fair value through profit or loss		-	-
Swap contracts with foreign currency BYR/USD	859	-	-
Notional amount of purchased currency (BYR)	*7,223*	-	-
Notional amount of currency to be sold(USD)	*6,630*	-	-

As at 31 December 2009 there were no transactions with similar instruments between the Bank and related parties.

Below the contingent assets with related parties as at 31 December 2010 and 2009 are presented:

In millions of Belarusian Rubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Guarantee received as at 31 December 2009	6,342	-	-
Guarantee received as at 31 December 2010	-	-	-
Unused credit lines as at 31 December 2009	-	-	5
Unused credit lines as at 31 December 2010	-	-	41

The income and expenses on transactions with related parties for 2010 are presented below:

In millions of Belarusian Rubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Interest income	684	544	27
Interest expenses	(1,180)	(67)	(14)
Rent expenses	(541)	(3,419)	-

The income and expenses on transactions with related parties for 2009 are presented below:

In millions of Belarusian Rubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Interest income	63	726	4
Interest expenses	(618)	(1,596)	(2)
Rent expenses	(395)	(3,991)	-

The information on compensation to key management personnel for 2010 and 2009 is presented:

In millions of Belarusian Rubles	**2010**	**2009**
Salary and other short-term personnel expenses	1,225	618
Remuneration of members of Board of Directors	346	81

36. Uncertainties

Economy of the Republic of Belarus

The economy of the Republic of Belarus is characterized by relatively high rates of taxation and extensive statutory regulation. Laws and regulations defining the business environment in the Republic of Belarus are subject to frequent changes. The future economic development depends to a large extent on the efficiency of the measures taken by the Government of Belarus and other actions beyond the Bank's control. The future direction of the economic policy of the Government of the Republic of Belarus can have an effect on the recoverability of the Bank's assets and the ability of the Bank to maintain or pay its debts as they mature.

The management of the Bank has made its best estimate on the recoverability and classification of assets and completeness of liabilities. However, the uncertainty described above still exists and the Bank may continue to be affected by it.

Legislation

Certain provisions of Belarusian commercial legislation and tax legislation in particular may give rise to varying interpretations and inconsistent application. In addition, as management's interpretation of legislation may differ from that of the authorities, statutory compliance may be challenged by the authorities, and as result the Bank may face additional taxes and charges and other preventive measures. The management of the Bank believes that it has already made all tax and other payments or accruals, and therefore no additional allowance has been made in the financial statements. Past fiscal years remain open to review by the authorities.

Inflation

The Republic of Belarus is facing a relatively high level of inflation (according to the government's statistical data consumer price inflation for the years ended 31 December 2010 and 2009 was 9.9% and 10.1%, respectively).

National Bank of the Republic of Belarus refinancing rate

As at 31 December 2010 and 2009, the National Bank of the Republic of Belarus refinancing rate was 10.5% and 13.5%, respectively. On 16 March 2011 the National Bank of the Republic of Belarus increased the refinancing rate to 12.0%, on 20 April 2011 to 13.0% and on 18 May 2011 to 14.0%.

Devaluation of national currency

Effective from 2 January 2009, the National Bank has pegged the Belarusian Ruble to a currency basket, divided equally into US Dollars, Euros and Russian Rubles. The Belarusian Ruble weakened against the currency basket by 1.78% in 2010 and by 7.94% during the period from 2 January 2009 to 31 December 2009. From 1 January 2011 until the date of approval of these financial statements for issue the Belarusian Ruble weakened additionally further by 8.34% against the currency basket.

In April 2011 the National Bank of the Republic of Belarus cancelled restrictions on limitations of the Belarusian Ruble rate movements against other currencies from the official rate set by the National Bank of the Republic of Belarus established on the foreign exchange bourse; in May 2011 – on foreign exchange operations with individuals.

Government debt

On 15 March 2011 Standard & Poor's Ratings Services lowered the sovereign credit rating of the Republic of Belarus – from "B+" to "B" for foreign currency denominated long-term liabilities and from "BB" to "B+" for long-term local currency denominated liabilities. The outlook remains negative.

Management is unable to reliably estimate the effects on the Bank's financial position of any further deterioration in the liquidity and the increased volatility in the currency markets of the Republic of Belarus. Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances.